New York City Independent Budget Office

Focus On:
The Preliminary Budget

March 2016

Stopgap Measures Aid NYC Health + Hospitals

The city's public hospital system—newly rebranded as NYC Health + Hospitals—has long relied on public health insurance payments (Medicaid and Medicare) and other government funding streams, with relatively little revenue from private insurance. H+H revenue from public sources is projected to decline because of changes in the health care system, government policy shifts, and reductions in patient visits.

In response to these shifts, H+H and the de Blasio Administration have promised a new plan, scheduled to accompany the release of the executive budget, to improve H+H's finances, which presumably will include initiatives to increase revenue, decrease expenses, or both. In the meantime, the 2017 preliminary budget included two immediate actions to assist H+H's finances: forgiveness of $337 million in payments H+H had been scheduled to make the city for 2016 and maintaining its budgeted payments to H+H, even though the potential to use some of these payments to trigger federal matching funds for supplemental Medicaid payments ($204 million anually) is anticipated to decline. Although the city could have withdrawn its share of these payments, it will now instead use these funds to increase the general subsidy to H+H.

History of City Subsidy to H+H. NYC Health + Hospitals operates 11 hospitals, over 30 clinics, and 5 long-term care facilities that provide care for a disproportionate share of patients who are publicly insured or without insurance. In 2014, 24 percent of New York City adults were enrolled in Medicaid and 14 percent were uninsured, but Medicaid beneficiaries made up 45 percent of outpatient visits at H+H facilities with the uninsured accounting for another 28 percent. H+H revenues often fall short of its expenses in part because Medicaid reimbursement rates are the lowest of any health insurance and uninsured patients often provide little—if any—payment for their care. Supplemental Medicaid payments (detailed below) aim to address these gaps for providers like H+H that treat many Medicaid and uninsured patients, but the compensation may be insufficient to cover the full cost of providing care.

H+H's on-going state of financial distress has prompted a number of city actions over the years, some of them stopgap, to avoid further damage to the system. As a result, H+H has become increasingly dependent on the city's fiscal support. The city gives H+H an annual unrestricted subsidy that has varied from almost nothing to over $250 million, depending on the city's fiscal condition and the other aid streams it provides. The city also subsidizes health insurance for H+H employees and legal services and settlement payments for H+H medical malpractice suits.

Prior to 2003, H+H did not reimburse the city for its medical malpractice costs, but it did pay debt service on its city-issued bonds ($154 million in 2002). In 2003, the city and H+H decided to swap these payments, expecting that if H+H was responsible for its malpractice claims, the corporation would have greater incentive to reduce them. This strategy was effective; H+H medical malpractice claims dropped from $172 million in 2003 to $127 million in 2014. Since 2007, the city has given H+H back a small amount of this payment ($17.3 million a year since 2011) for keeping the number of suits low. Most recently the city has taken on some of the increased personnel costs from H+H's collective bargaining agreements. The city also pays H+H for providing specific free and low-cost services to city schools, clinics, and jails, as well as health services for some city agencies, which are not included in the subsidy.[1]

In 2006, the city substantially increased its supplemental Medicaid payments to H+H and the hospital system began once again to reimburse the city for its debt service expenses and its employees' health insurance premiums, while continuing to pay for its medical malpractice claims

IBO
New York City
Independent Budget Office
Ronnie Lowenstein, 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

Net City Subsidy to Health + Hospitals, 2009-2016
Dollars in millions

	2009	2010	2011	2012	2013	2014	2015	2016†
NYC Payments to H+H	**$580**	**$986**	**$886**	**$1,057**	**$1,293**	**$1,149**	**$1,458**	**1,426**
Unrestricted City Subsidy	130.6	2.6	60.0	83.4	81.6	130.8	100.9	267.2
Employee Health Insurance	13.1	24.9	17.7	18.3	19.3	20.9	21.1	24.9
Debt Service	126.7	181.2	167.4	210.3	219.0	217.0	212.5	225.9
Supplemental Medicaid (DSH + UPL)*	136.7	587.1	480.6	608.6	651.0	636.5	898.0	612.5‡
Medical Malpractice Claims	137.5	189.9	142.6	118.7	121.6	126.9	123.4	140.0
Medical Malpractice Repayment	35.7	0	17.3	17.3	17.3	17.3	17.3	17.3
Collective Bargaining	$0.0	0	0.0	0.0	183.0	0.0	85.0	138.0
H+H Payments to NYC**	**($222)**	**$0**	**($279)**	**($292)**	**($304)**	**($309)**	**($301***)**	**0**
Debt Service	(71.1)	0	(118.5)	(154.7)	(162.9)	(161.6)	(156.4)	0
Medical Malpractice Claims	(137.5)	0	(142.6)	(118.7)	(121.6)	(126.9)	(123.4)	0
Employee Health Insurance	(13.1)	0	(17.7)	(18.3)	(19.3)	(20.9)	(21.1)	0
Net H+H Subsidy	**$359**	**$986**	**$607**	**$765**	**$989**	**$840**	**$1,157**	**$1,426**

SOURCES: NYC Health + Hospitals, Mayor's Office of Management and Budget
NOTES: *City share of supplemental Medicaid is an approximation; calculation assumes the state contributes $50 million annually to the nonfederal share of Disproportionate Share Hospital payments and that the city funds the remainder; the nonfederal share is 50 percent of total receipts, except for the Upper Payment Limit receipts in 2009-11, when the federal share was increased to 61.6 percent (American Recovery Act). **H+H's payments to New York City reimburse the city for some of its subsidy to H+H so they are shown as negatives as they decrease the net subsidy. ***H+H has not yet made these payments; the city often allows H+H to delay payments to the city to accommodate delayed payments to H+H from federal or state sources. †2016 reflects budgeted values. ‡This value reflects H+H's receipts through February 2016 and may increase.
New York City Independent Budget Office

(note that H+H often delays making these payments to the city and the city forgave the payments entirely in 2010). The city moved to subsidize H+H mainly through supplemental Medicaid because the federal government matches these payments, doubling the fiscal boost for H+H. The federal Medicaid program allows states to make supplemental Medicaid payments to health care facilities that provide care to substantial numbers of Medicaid and uninsured patients to make up for the low payments from these patients. They consist largely of Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) payments.

Both DSH and UPL payments leverage federal funds for safety net hospitals with city funds, but through different processes involving the city, state, and federal government. The federal government funds half of DSH and UPL payments and the local government (the city in the case of H+H) provides almost the entire other half, with a small state contribution for DSH payments.

Disproportionate Share Hospital payments are block subsidies for hospitals that see high rates of uninsured and Medicaid patients; the state determines the value of these subsidies for each hospital based on a complex methodology. UPL payments are increases in the Medicaid reimbursement rates for providers who see a lot of Medicaid patients. The city or state can decide to provide UPL payments to almost any provider (as long as they pay for half of this increase) and then must negotiate with the federal government to determine the higher rates.

In the case of H+H, New York State determines the value of its DSH payments and the city determines its UPL payments through the rates it is willing to pay and able to negotiate with the federal government. The city's annual combined DSH and UPL payments to H+H increased from an average of $75 million in 2003 through 2006, to $370 million in 2007 through 2010, and $594 million in 2011 through 2014, all matched by federal payments.[2] Total DSH and UPL payments increased from 3 percent of H+H's total Medicaid revenue in 2003 to 33 percent in 2015.

Actions in the 2017 Preliminary Budget. While this strategy of boosting federal payments by increasing the city's contribution has been benefiting H+H for the last decade, both major sources of supplemental Medicaid are poised to decline. Federal policy requires UPL payments to be determined only by fee for service Medicaid receipts, which are declining for H+H because the New York State Medicaid program has been shifting from a fee for service system to a predominately managed care system over the last two decades. This shift is designed to increase coordination of and access to care, along with predictability of costs for the state, but it also limits the opportunity to claim UPL payments.[3] The Mayor's preliminary budget estimates that beginning in 2016,

NYC Health + Hospitals Financial Plan *Dollars in millions*				
Adopted Budget: Projected	**2016**	**2017**	**2018**	**2019**
Operating Revenues	$8,743	$8,646	$8,807	$8,511
Operating Expenses	9,728	10,086	10,220	10,344
Interest	(122)	(122)	(123)	(123)
Total Before Corrective Actions	**($1,106)**	**($1,562)**	**($1,536)**	**($1,956)**
Corrective Actions	$437	$1,167	$1,332	$1,458
Total After Corrective Actions	**($669)**	**($395)**	**($204)**	**($499)**
Accrual to Cash Adjustment	$221	$311	$401	$314
Prior Year Cash Balance	552	104	20	217
Closing Cash Balance	**$104**	**$20**	**$217**	**$32**

SOURCE: NYC Health + Hospitals

New York City Independent Budget Office

annual federal supplemental Medicaid payments will be $204 million lower than previously budgeted. The de Blasio Administration chose to apply the $204 million it would have used to trigger federal matching payments in 2016 and future years towards the city's unrestricted subsidy instead. This shift is budget neutral for the city.

By repurposing the $204 million from supplemental Medicaid payments to an increase in the city's direct subsidy payment, the fiscal impact on H+H from the federal changes is held to $204 million, rather than what could have potentially been a $408 million cut. In addition, the Affordable Care Act is set to decrease federal DSH payments in line with the projected decrease in the uninsured population beginning in 2018. These reductions are not included in the budget because the magnitude of these cuts for H+H is unknown.

The preliminary budget also forgives H+H's 2016 payments to the city for medical malpractice claim expenses, debt service on city bonds, and employee health insurance, totaling $337 million in forgone city revenue. This forgiveness aims to mitigate H+H's immediate financial stress while the city and H+H develop a longer-term plan to put the health system on a more stable fiscal path.

Major Budgetary Challenges Remain. Prior year cash balances (unlike the city, H+H uses cash-based accounting) are expected to leave H+H with $104.1 million cash on hand to end 2016—less than needed for a week of operation. Cash balances in 2017 and 2019 are projected to be even smaller.

The most recent H+H budget projects declining revenue and increasing expenses, driven by the declines in Medicaid payments, declines in overall patient visits, and persistently high operating expenses.[4] The budget assumes that these losses will be partially offset by corrective actions including a $519 million net benefit over four years from the state's Delivery System Reform Incentive Payment program, $309 million annually in H+H internal cost containment initiatives and, starting in 2017, $700 million annually in unspecified revenue from state and federal actions. Even with these measures, the budget projects that H+H revenue will fall short of its expenses by $669 million in 2016 and by $395 million, $204 million, and $499 million, respectively, in 2017 through 2019.

Over the last year H+H's strategies to steady the corporation's finances have included efforts to increase patient volume by improving patient satisfaction and decreasing wait times and to increase the number of enrollees in the system's own insurance plan, Metro Plus. H+H's internal cost-containment strategies include efforts to reduce supply costs with better procurement arrangements, expand primary care services, and reduce workforce expenses.[5] H+H believes it can achieve workforce spending reductions of $100 million annually with less overtime expenses, not filling all positions that become vacant, and other efforts. H+H reports modest progress in those efforts but so far this year, total disbursements have yet to decline. Reducing workforce expenses on a larger scale could require reducing the services H+H provides or eliminating facilities, strategies that are politically fraught and that H+H has typically avoided.

Report prepared by Erin Kelly

Endnotes

[1]Prior to 2003, H+H provided all health care services to people involved with the criminal justice system, but in 2003 the city opted to contract out most of these services. (H+H still provided hospital-based care and some mental health care). In June 2015, the city announced that H+H would be taking over all correctional health services, increasing payments to H+H by roughly $150 million annually.

[2]Four year averages are used because payments are often delayed and received in bulk in later years, making some single year payments misleading. There is also a small state contribution to DSH payments.

[3]Since payments are routinely delayed (for example, some payments received in 2015 are for services performed in 2011), the impact of the shift to managed care will be seen in future years.

[4]Published in August 2015 as a supplement to the city's 2016 adopted budget.

[5]The city has an initiative (Caring Neighborhoods) to increase the number of primary care centers in New York City and H+H is projecting revenue gains from taking part in this project.