New York City Independent Budget Office

Focus On:
The Preliminary Budget

March 2019

NYC Health + Hospitals: On the Mend?

NYC Health + Hospitals (H+H) has had a history of fiscal difficulties since its creation as a public benefit corporation in 1969, stemming in part from its mission to provide care to all New Yorkers regardless of their ability to pay or immigration status (all years refer to city fiscal years). Nearly 70 percent of inpatient care is provided to patients who are on Medicaid or uninsured. Uninsured patients at H+H accounted for over 40 percent of citywide uninsured hospital stays in 2015.

Because H+H's patient revenues do not cover expenses, the system is dependent on government support. Since the passage of the Affordable Care Act (ACA), H+H has faced increased uncertainty regarding Medicaid Disproportionate Share Hospital (DSH) payments, a federal financing mechanism H+H receives from the state—although largely funded with city and federal dollars—to subsidize care for Medicaid patients and the uninsured.[1] This is on top of broader ongoing policy decisions and changes in the health care marketplace the hospital sector is experiencing, including declining inpatient stays, rising expenses, and increased competition from outpatient care, and increased financial incentives to keep patients out of hospitals and emergency departments.

As a result of delays in previously scheduled DSH cuts, substantial city support, higher than expected revenues, and savings from cutting staff, H+H started 2019 with a cash balance of $738 million. Moreover, H+H was able to reimburse the city for unpaid obligations for prior years dating back to 2015.[2] The public hospital system is in the process of implementing a "transformation plan" intended to close substantial budget gaps projected for each year of the 2019 through 2023 financial plan. Even assuming it succeeds in implementing all of its revenue and savings measures, H+H still projects that it will experience losses beginning in 2021, although far short of the losses expected in the absence of the transformation plan. H+H's end-of-year cash balance is projected to remain positive through each year of the financial plan, but will peak at $885 million in 2020 and decrease to $114 million by 2023.

City Support for H+H. H+H has a history of fiscal difficulties and shifting fiscal relationships with the city. Under the de Blasio Administration, city support for H+H expanded and covers not only Medicaid supplemental payments and an unrestricted H+H subsidy, but collective bargaining settlement costs for unions that have reached deals with the city (since 2015) and H+H debt service payments on city-issued bonds (since 2016). Additionally, the city has made increasing use of H+H for services that might otherwise have been provided by outside contractors. Since 2016, H+H has been providing correctional health services for inmates at the city's jails and uniformed service officers and, starting in 2020, H+H will also offer services for NYC Care, the Mayor's new initiative to provide primary and speciality care to anyone in need. H+H currently reimburses the city for medical malpractice liabilities resulting from H+H negligence, along with the costs of fringe benefits for current employees and health insurance for retirees. As of the 2020 Preliminary Budget, IBO estimates that net city and intra-city payments to H+H will increase from $1.7 billion in 2019 to $2.3 billion in 2023. Net city and intra-city payments have decreased in 2019 because of the one-time payments made by H+H to the city for prior year obligations.

H+H's Financial Plan for 2019-2023

Despite its assumption of increasing patient and city revenues, H+H's latest financial plan (presented on a cash basis) projects that total revenues will decrease by 12.1 percent from 2019 through 2023 unless planned revenue and savings "corrective actions" are successful. The decline in H+H revenue is mostly due to an anticipated reduction in

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NYC Health + Hospitals Financial Plan as of the 2020 Preliminary Budget
Dollars in millions, calculated on a cash basis

Preliminary Budget	2019	2020	2021	2022	2023
Revenues	$7,755	$7,010	$6,788	$6,796	$6,814
Expenses	8,867	8,357	8,487	8,681	8,825
Income/(Loss) Before Corrective Actions	**($1,113)**	**($1,347)**	**($1,699)**	**($1,885)**	**($2,011)**
Revenue Generating Initiatives	$757	$890	$1,015	$1,027	$1,027
Expense Reducing Initiatives	430	530	585	585	585
Income/(Loss) After Corrective Actions	**$74**	**$73**	**($99)**	**($273)**	**($399)**
Opening Cash Balance	**$738**	**$812**	**$885**	**$786**	**$513**
Closing Cash Balance	**$812**	**$885**	**$786**	**$513**	**$114**

SOURCES: Mayor's Office of Management and Budget; NYC Health + Hospitals Financial Plan

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DSH payments from $1.7 billion in 2019 to $794 million in 2023. Upper Payment Limit (UPL) payments—city and federal increases to the Medicaid fee-for-service rate for providers who see a disproportionate amount of Medicaid patients—are also projected to decrease by $338 million annually over the same period. The UPL reduction is a result of the continuing shift of Medicaid enrollees into managed care. As it now stands, assuming that cuts in DSH and UPL payments proceed as scheduled, H+H projects an operational shortfall before corrective actions growing from $1.1 billion in 2019 to $2.0 billion in 2023. Even if planned actions to increase revenues and cut costs succeed, however, H+H still expects to face relatively modest operating shortfalls starting in 2021. H+H's ending cash balance is projected to remain positive over the period, but will decrease from $812 million in 2019 to $114 million in 2023.

Progress on H+H's Transformation Plan

NYC Health + Hospitals most recent transformation plan proposes to close projected budget gaps through initiatives to increase public and private revenues, and to reduce costs by providing services more efficiently. H+H anticipates that revenue-generating initiatives will total $4.7 billion through 2023, compared with $2.7 billion in planned reductions in costs.

H+H's Revenue Generating Initiatives. The transformation plan seeks to generate $410 million in internally generated revenue in 2019, rising to $845 million in 2023, by maximizing reimbursements received from health insurance and from patients themselves. The ways in which H+H plans to increase health insurance revenue includes improving its billing cycle, renegotiating existing contracts with managed care companies, and arbitrating managed care denials. At the same time, H+H is making efforts to increase enrollment in its own insurance plan, MetroPlus. H+H plans to generate $60 million in 2019 rising to $135 million in 2023 from MetroPlus engagement and growth initiatives. MetroPlus enrollment increased by 11.5 percent from 2014 through 2018, reaching 511,839 as of October 2018.

But MetroPlus enrollees, and the payments that follow them for the use of health services, are not necessarily winding up at H+H facilities. The share of MetroPlus spending going to non-H+H providers has also increased. MetroPlus spending at H+H facilities decreased from 44.8 percent to 39.3 percent over the 2014-2018 period. The transformation plan is counting on continued investments in primary and outpatient capacity to reverse these trends and encourage more MetroPlus members and patients to use H+H facilities,

To increase patient visits and patient revenues, H+H is working to improve patient satisfaction and decrease wait times through training, hiring more clinical staff, implementing new electronic health record systems, and selectively expanding services and outpatient centers.

This effort will, however, need to reverse recent usage trends. Data from July through December 2018 show declines in H+H acute hospital discharges of 3.8 percent compared with the same period the previous year.[3] Inpatient and hospital-based outpatient visits, including emergency visits, decreased by 2.3 percent, while visits at H+H's Gotham Health diagnostic treatment centers increased, but only by 0.5 percent. On the other hand, the share of H+H's patients with insurance has improved somewhat for inpatient, adult outpatient, and pediatric outpatient care, as the number of uninsured patients served decreased by 18.6 percent from 2014 through 2018. The recently announced NYC Care initiative could improve H+H finances and increase H+H's primary and specialist outpatient visits. However, since NYC Care is city-

NYC Health + Hospitals Transformation Plan as of the 2020 Preliminary Budget
Dollars in millions

	2019	2020	2021	2022	2023
Total Revenue-Generating Initiatives	**$757**	**$890**	**$1,015**	**$1,027**	**$1,027**
External Initiatives Approved	$347	$165	$120	$120	$120
Delivery System Reform Incentive Payment	39				
Value-Based Payment Quality Improvement Plan	248	120	120	120	120
Care Restructuring Enhancement Pilot	59	45			
External Initiatives Not Yet Approved–DSH Formula Change	0	120	85	62	62
Internal Health Insurance and Patient Revenue Growth Initiatives	410	605	810	845	845
Revenue Cycle Improvements	190	230	275	300	300
Managed Care Contracting Improvements	60	120	175	175	175
MetroPlus Engagement and Growth	60	100	135	135	135
Coverage for Eligible Insured	40	60	80	80	80
Federal Qualified Health Center Revenue and Patient Revenue Growth	60	95	145	155	155
Total Internal Expense-Reducing Initiatives	**$430**	**$530**	**$585**	**$585**	**$585**
Internal Procurement Efficiencies	$135	$145	$155	$155	$155
Supply Chain	105	115	125	125	125
Labs and Pharmacy	30	30	30	30	30
Internal Restructuring and Personnel Efficiencies	295	385	430	430	430
Full-Time Equivalent Reduction	290	375	410	410	410
Restructuring Health Services	5	10	20	20	20
Total Corrective Actions	**$1,187**	**$1,420**	**$1,600**	**$1,612**	**$1,612**

SOURCES: Mayor's Office of Management and Budget; NYC Health + Hospitals Financial Plan

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funded, an increase in the share of outpatient visits that are uninsured could pose a risk to the city if further funding is required as additional funds for H+H would come at the expense of the city budget.

H+H also plans to generate a total of $872 million in revenue over the 2019 through 2023 period from leveraging current Medicaid waiver programs such as the Delivery System Reform Incentive Payment program (DSRIP), Care Restructuring Enhancement Pilots (CREP), and the Value-Based Payment Quality Improvement Program. These external initiatives, which have already been approved, provide a mechanism for H+H to offset federal DSH and UPL losses. The DSRIP and CREP programs are scheduled to end in the next few years. Extension of these programs would improve H+H's financial outlook, but would require federal and state approvals.

H+H has also budgeted for total revenue of $329 million over the 2020 through 2023 period from a change it is seeking in the state formula for distributing DSH payments. Federal DSH payments are allocated to states as block grants, which the state then allocates to providers. H+H is the largest recipient of DSH funds in the state, receiving on average of about $1.4 billion each year. Without the formula change, H+H will stand to lose the most from federal DSH cuts currently scheduled for 2020. If H+H fails to achieve state approval, it will face a $120 million shortfall in 2020 although the gap would decline in later years.

H+H faces other risks to its revenue plan from potential actions at the federal and state level. The Trump Administration continues to take executive actions that undermine ACA market enrollment efforts. In addition the President's federal charge proposal would make receipt of certain public assistance benefits grounds for denying permanent residency status to some classes of immigrants. This could deter many immigrants from seeking public insurance options such as Medicaid, potentially increasing the number of uninsured patients getting treatment at H+H facilities, reducing MetroPlus enrollment, and increasing H+H emergency care usage.

H+H could also face a reduction in federal funds from a recent rule change that would deny Title X funds to programs where abortion is offered as an option in family planning. At the state level, Governor Cuomo's Executive Budget proposed a nursing home case mix adjustment, which H+H estimates will have a $15 million-$20 million impact on the system. Conversely, the Governor has reportedly reversed his plan to reduce Medicaid payments

by $550 million statewide, after the President introduced his budget with steep health care cuts.

In recent month's H+H's revenue initiatives have shown some positive results. H+H reported higher revenues in July through December 2018 compared with the same period in 2017. While total patient care revenue increased by $80.4 million, however, it was still $40.7 million below the budgeted amount.

H+H Internal Expense-Reducing Initiatives. Expense reduction efforts include improvements to the procurement process, as well as restructuring and personnel efficiencies. The vast majority of those savings are expected to come from staff reductions, to be accomplished through attrition in nonclinical settings over time. Staff reductions are expected to save $290 million in 2019, rising to $410 million in 2023. From 2014 through 2018, H+H's full-time equivalent (FTE) staff declined by 6.3 percent. Yet, from July through December 2018, the number of FTE increased by 456 to 44,835. While this was in line with H+H's plan to hire for clinical and revenue generating positions, overall staff spending increased more than expected.

H+H's plan also budgets for $5 million in personnel savings from restructuring in 2019, rising to $20 million annually by 2021. While no hospital closures are assumed, the public system plans to consolidate certain services and service mixes across facilities and make its use of space more efficient. In recent years, certified bed capacity has fallen less than usage. Maintaining empty beds is costly to the system. Waiting times and provider capacity also vary among facilities. While there are opportunities to do more in this area, undertaking major restructuring activities has proved to be highly contentious in the past.

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Endnotes

[1]Apart from around $50 million in state funding, DSH payments are half city and half federally funded. The declines in DSH funding in H+H's financial plan represent federal declines. The plan assumes the city will continue to provide the non-federal share of its DSH payments to H+H.
[2]This includes: $296.8 million for medical malpractice, fringe benefits, and H+H debt for city-issued bonds for 2015. The system is also on-track to pay the city back for retiree health payments of $74.7 million for 2016. Additionally, H+H paid the city $108.1 million and $25.6 million for medical malpractice and fringe benefits, respectively, and around $89 million for retiree health payments in 2018.
[3]Although discharges declined by 3.8 percent, H+H claims that only a third of the decline will impact revenue. H+H claims that revenue loss from two-thirds of the drop in discharges can be offset by coding and documentation improvements, recoupment of delays related to H+H's electronic health record implementation, and anticipated risk pool revenue for diverting people out of hospitals.

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