

NYC Health + Hospitals

UPDATE AND BACKGROUND

ON THE BUDGET AND FINANCIAL SITUATION

NYCHH Revenues and Expenses – the Structural Budget Deficit Problem

- We all hear about how Health + Hospitals is always facing a budget crisis. But if you look at NYCHH financial statements, there does not appear to be a budget deficit. The final budget comes out balanced or slightly up or down from year to year.
- For example, in the fiscal year that ended on June 30, 2019, H+H reported that it had an “operating loss” of \$89.99 million, but ended the year with a surplus in the bank of \$177 million out of total operating revenues of \$7.9 billion.
- Here’s the breakdown of the actual finances in Fiscal Year 2019:

Operating Revenues (payments or income for operations)	\$7.897 billion
Operating Expenses (wages, supplies, medical services, etc.)	\$7.987 billion
Operating Losses	\$90 million
Additional Non-operating losses	\$108 million
Total Losses	\$198 million
Capital Contributions (classified as cash income)	\$375 million
Net Gain for 2019 (cash basis)	\$177 million

Structural Budget Deficit Problem (continued)

How did H+H end up with a surplus in 2019? Where did the perennial budget deficit go?

The answer is pretty simple: Health + Hospitals made up its budget deficit with more than \$1.4 billion in City of New York subsidies and an additional \$1.5 billion in state and federal supplemental funding.

Without those subsidies, NYCHH actually lost more than \$2.9 billion from its patient care operations.

The Federal, State and City subsidies included the following components:

City of New York Direct Payments to NYCHH in FY 2019	\$1.064 billion
Including:	
• Payment or indemnification for liability costs	• \$118 million
• Debt obligations assumed by City	• \$106 million
• Collective Bargaining Cost	• \$40 million
City of New York Capital Commitments	\$355 million
Total Direct Subsidies by the City of New York	\$1.419 billion
Additional payments from Federal DSH and State ICP Pool	\$1.528 billion

Structural Budget Deficit Problem (continued)

This pattern continues in the recently enacted Fiscal Year 2021 City Budget, which again provides for \$1.9 billion in direct and indirect operating subsidies to Health + Hospitals for this year:

City of New York Direct Payments to NYCHH in FY 2021	\$1.163 billion
Including:	
• Payment or indemnification for liability costs	• TBD
• Collective Bargaining Costs	• TBD
Debt service obligations assumed by City	\$263 million
Employee Fringe Benefit Costs	\$26 million
City of New York Capital Commitments	\$506 million
Total Direct Subsidies by the City of New York	\$1.952 billion
Additional payments from Federal DSH and State ICP Pool	TBD

Thus, even while NYCHH attempts to reduce costs and increase revenues, the structural deficit continues to exist and requires ongoing subsidies to maintain the viability of the system.

As we will discuss in more detail, the ongoing COVID and economic crises pose new threats to H+H, but before we discuss that, let's look at the reasons for the structural deficit.

Causes of the NYCHH Structural Budget Gap

1. The Role of NYC H+H in the hospital system:

H+H provides about 18% of city-wide bed capacity and is thus a key provider of care for millions of New Yorkers. But H+H plays an even *bigger* role in the hospital system as a provider of expensive and poorly reimbursed services:

- 28% of city-wide ER visits and 5 of the 12 adult Level 1 trauma centers in New York City.
- A growing and disproportionate share of inpatient psychiatric services (e.g., 42.7% of moderate bi-polar disorders and similar percentages of schizophrenia & other psych. cases).
- More than 5.16 million outpatient clinic visits, accounting for almost 50% of city-wide hospital based clinic volume.
- A disproportionate *and growing* number of uninsured patients (about 6.25% of total patient care expenses - \$500 million out of \$8 billion in patient care expenses).
- Very high numbers of Medicaid patients - 62.5% of inpatient discharges, 43.5% of adult outpatient visits, and 80.5% of pediatric outpatient visits.
- Very high numbers of uninsured patients – 4.1% of discharges, 25% of adult outpatient visits, 27.4% of adult ER visits, and 11.7% of pediatric ER visits are uninsured.
- Very low numbers of privately insured patients – 9.3% of adult inpatient discharges and 10.9% of adult outpatient visits had private insurance.

Causes of the NYCHH Structural Budget Gap (continued)

2. Its Not Costs – H+H costs are comparable to those of private hospitals

According to a recent study, NYCHH inpatient costs are comparable to or lower than those of the private sector hospitals, when one accounts for the social-economic determinants of health that contribute to higher length of stay and more readmissions.

Hospital reimbursements from government and private insurers are generally based on the diagnosis of the patient (DRG) and ranked from low severity to high severity. Each DRG receives a base reimbursement, which is adjusted upwards if the condition is more severe.

When looking at costs on a per-day (adjusted for acuity) or per-visit basis, NYCHH costs were significantly lower than those of the leading private hospital networks:

	NYCHH	Safety Net	Private Network
Inpatient cost per day	\$2,491	\$2,241	\$2,702
Outpatient cost per clinic visit	\$425	\$373	\$672
ER visit (not admitted)	\$730	\$690	\$986
Ambulatory Surgery per case	\$3,609	\$4,116	\$5,656

Causes of the NYCHH Structural Budget Gap (continued)

3. NYCHH reimbursement rates are lower than those of the private sector hospitals

While H+H's costs are comparable to or lower than those in the private sector, the direct reimbursement received by NYCHH is significantly lower than that of the higher cost private network hospitals.

This imbalance is especially bad for the types of services that NYCHH predominantly provides – psychiatric, substance use, outpatient clinics - and for the Medicaid and uninsured patients that disproportionately rely on NYCHH. The differences in reimbursement rates – shown below as the percentage of costs reimbursed - between NYCHH and the private networks are eye popping:

	Medicare	Medicaid	Private Insurance
NYCHH	80.7%	53.3%	41.7%
Safety Net Hospitals	101.7%	80.6%	90.1%
Network Hospitals	88.7%	76.7%	167.0%

Also note that NYCHH spends devotes 4 times as much to IP and OP psych services and 2 times as much on OP clinics as the private networks. The privates devote 4 times more to OP surgery and 50% more to IP acute care – both areas with higher reimbursement and profit margins.

The Public Health Emergency and the Economic Crisis

The Economic Crisis

The ongoing COVID health care emergency has triggered a severe economic crisis that is wreaking havoc on millions of people and is intensifying existing racial and social inequalities in health outcomes, access to care, incomes, and the distribution of wealth:

- More than 30 million people are on unemployment insurance, which is about to run out;
- Business are closed or have seen their revenues slashed, with an increasing prospect of permanent closures and bankruptcies that will make unemployment worse;
- Millions face the loss of employer health coverage and the number of uninsured and Medicaid recipients is rising;
- The national economy is expected to shrink by at least 6% to 9% for 2020 and to remain below 2019 levels for years to come (assuming that the COVID crisis is addressed this year).

Impact on Local and State Budgets

As a result of the economic crisis, government revenues are down and expenses are up, creating a dire budget situation at the state and local levels throughout New York.

In addition, there is extreme uncertainty about how much (if anything) Congress will appropriate to support state and local governments. The House of Representatives passed legislation which includes \$1 trillion in funding for states and cities, but the Republican Senate and the White House refuse to agree to this critical funding, leaving state and local budgets in the air.

This will also directly affect NYC Health + Hospitals.

New York State Budget: Impact on NYCHH

Going into the budget process, the State projected a 2021 budget of \$180 billion, but claimed that there was a \$6.1 billion budget deficit (including \$4 billion in Medicaid spending). To address this alleged gap, the state made mid-year adjustments that cut Medicaid by \$1 billion and directed the Medicaid Reform Team (MRT) commission to find \$2.5 billion more to cut.

The impact of COVID and the economic crisis destroyed those early assumptions and created a new \$13 billion budget hole. The final enacted budget for 2021 “authorizes” a state budget in the amount of \$177 billion (a \$3 billion reduction), including the following cuts to health care funding:

- Across the board reductions in Medicaid reimbursement rates of 1.5%, totaling \$373 million (impact on NYCHH - \$100 million);
- Additional MRT Medicaid cuts of \$2.2 billion in FY2020-21 and \$2.74 billion in FY2021-22.

In addition, the enacted budget includes the “authority” to make **an additional \$10 billion** in cuts during the year if the budget is in deficit (which it is and everyone knew it would be). This includes \$8 billion in cuts to local government, of which about \$4 billion would be cut from NY City’s state aid.

So far, the Governor has not implemented these budget cuts, while we wait to see what happens the latest COVID relief bill and whether there will be state and local aid included. The formal implementation is delayed to September. If the state cuts happen, NYCHH will be severely impacted.

The City Budget – Impact on NYCHH

The City budget passed on July 1st includes more than \$9.5 billion in cuts, but includes the following additional provisions:

- Unspecified “labor savings” in the amount of \$1 billion – to be determined in negotiations with the MLC unions - and failing an agreement, up to 22,000 city worker layoffs.
- An additional \$1.5 billion in unspecified savings to be found by agencies through cost cutting measures or “efficiencies.”
- No cuts **yet** to the Health + Hospitals system, which was allocated \$1.163 billion in direct subsidies and an additional \$795 million in capital funding and other subsidies for liability, debt servicing and labor contract costs.

The revenue assumptions of the city budget will come under additional pressure during the fiscal year if the state follows through with threatened cuts in aid that may total \$4 billion or more.

The pressures on the City budget will ease if House Democrats can force the Senate to include the \$1 trillion in state and local aid in the next COVID relief bill (negotiations are ongoing).

This federal aid would put the City in line to receive billions that could be used to eliminate the need to implement the labor and agency cuts, and to restore funding for service or offset any further drop in revenues if the economic situation gets worse than expected.

COVID's Impact on Health + Hospitals

The full impact of the COVID crisis on NYCHH and the rest of the hospital system is remains unclear. Preliminary projections or estimates made at the June meetings of the NYCHH Board and the NYCHH Finance Committee show the following COVID impact and ongoing areas of concern:

- During the surge phase, NYCHH revenues increased because it was receiving payments for treating more acute COVID patients, but after the peak, as COVID patients dropped and non-COVID volume was slow to resume, NYCHH ran a \$23 million a week loss in May and June.
- The H+H system estimates that its added costs of addressing COVID will be \$1.1 billion, including \$500 million in extra staffing costs (\$337 spent through May), \$300 million in infrastructure and equipment (\$62 million spent through May), \$200 million in PPE (\$61 million spent through May) and \$100 million in testing and lab costs (\$10 million spent through May).
- The H+H system had received \$824 million in federal COVID aid through May and expected up to \$32 million in additional aid from the federal “uninsured pool” fund.
- NYCHH also applied separately for \$650 million in FEMA disaster relief funding on March 27th, of which \$532 million has been “conceptually” approved, but has not been formally approved or disbursed.

Conclusions and Next Steps

The exact extent of the threat faced by NYC H+H remains unclear at this point, and depends on the following factors:

- How much (if any) funding will NYCHH receive from the federal government relief packages?
- Will the state implement the threatened 20%-30% across the board reduction in state aid to localities, and how will that affect NYCHH's budget?
- Will the City include NYCHH in the targeted but unspecified \$1 billion in labor cost cuts (or 22,000 layoffs if cuts cannot be agreed to), and if so how that will affect NYCHH?
- Will the City amend its enacted FY2021 budget to reduce its budgeted subsidies to NYCHH because of likely state cuts to the City?
- Will there be a resurgence in the COVID pandemic that increases COVID cases and admissions as schools and businesses reopen and the colder weather approaches?
- Will state and local economic recoveries stall or reverse, causing even higher budget gaps that will be passed along in the form of funding cuts to NYCHH?

We cannot wait for these uncertainties to develop and devastate NYCHH. We need to act now to fight for increased funding to protect our patients and our communities. That means fighting back against austerity measure and demanding that the rich pay their fair share to protect vital services.