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City Subsidies Grow, Federal Cuts Delayed but Fiscal Challenges Remain for NYC's Public Hospitals

As New York City Health + Hospitals (H+H), the city's public hospital system, has faced growing fiscal challenges in recent years the de Blasio Administration has increased city support for the system. IBO estimates that in 2014 the city provided H+H with \$1.3 billion in budgeted funding and \$1.4 billion in 2015 (all years refer to city fiscal years unless otherwise noted). Under the Mayor's latest financial plan, IBO estimates city budgeted support for H+H will continue to grow, rising from nearly \$2.1 billion this year to \$2.2 billion in 2020.

The city's public hospitals are facing fiscal challenges despite federal legislation providing short-term relief. Ongoing changes in New York City's health care market, such as changing federal and state policies, new payment methodologies, medical advances, and evolving patient preferences, continue to favor primary and preventive care, and shift treatments and services once considered exclusive to hospitals to outpatient settings or the home. These changes have resulted in fewer inpatient visits, an overall decline in the number of hospital beds, and an increase in unused space.

H+H served 1.1 million unique patients in 2017, treating everyone regardless of immigration status or ability to pay.¹ With 70 percent of its patients on Medicaid or uninsured, H+H relies heavily on public health insurance payments. Public revenue streams tend to reimburse below cost of care and services for the uninsured may be provided for little or no reimbursement. As a result, the system relies heavily on Medicaid supplemental payments. These funds are mainly given to hospitals that serve a high proportion of patients who are on Medicaid or are uninsured and must be matched locally.

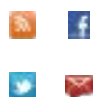
In 2017, Disproportionate Share Hospital (DSH) and Upper

Payment Limit (UPL) payments, two types of Medicaid supplemental funding programs, accounted for roughly 28 percent of H+H's total projected revenue.² Both of these payment streams are declining or are set to decline in the coming years. DSH funding, which was scheduled to be substantially reduced under the Affordable Care Act (ACA), is of particular importance to H+H.³

Based partly on these expected reductions, the most recent accrual-based financial plan for H+H projected that annual operating deficits would increase from \$1.2 billion in 2018 to almost \$1.8 billion by 2020, absent any spending reductions or revenue increases to address the shortfalls.⁴ DSH funds were expected to decline in federal fiscal year 2018, but these cuts have now been postponed for two years due to the passage of the Bipartisan Budget Act of 2018. The delay in the cut-off of DSH funds gives H+H a two-year window to get its finances in order. H+H's new President and Chief Executive Officer, Mitchell Katz, is expected to unveil a plan to restore fiscal solvency for H+H, which presumably will address how the system plans to increase revenue, decrease expenses, or both.

City Support for H+H. As shown in the table on [page 2](#), IBO estimates that New York City is providing around \$2.1 billion in budgeted city funding for H+H in the current fiscal year, net of payments H+H makes to the city. (Note: This estimate includes funds transferred between H+H and other city agencies, which is called intra-city funding. It does not include the city's contribution of Medicaid payments for patients served by H+H or funding for H+H in the city's capital commitment plan.)

Included in the table is the unrestricted subsidy, which the city provides to H+H to cover the costs for treating



Net Budgeted City Payments to New York City Health + Hospitals as of the 2019 Preliminary Budget

Dollars in millions

	2014	2015	2016	2017	2018	2019	2020
New York City Payments to H+H							
Supplemental Medicaid Payments*	\$1,022.8	\$1,111.1	\$1,103.9	\$859.9	\$981.1	\$995.6	\$1,002.8
City Purchases on Behalf of H+H	339.3	332.8	353.4	367.8	360.4	365.4	390.1
Total Debt Service Payments**	153.2**	145.8**	165.2**	179.9	172.9	178.6	203.3
Total Medical Malpractice***	157.3	157.3	157.3	157.3	157.3	157.3	157.3
H+H Employment Fringe	24.9	24.9	24.9	24.9	24.9	24.9	24.9
H+H General Services	3.8	4.8	5.9	5.7	5.3	4.6	4.6
Nursing Career Ladder Program	0.2	-	-	-	-	-	-
Total Unrestricted City Subsidy	130.8	101.0	540.6	260.1	265.6	264.4	362.9
Provision of H+H Services to the City	\$88.8	105.0	\$169.4	336.2	329.9	316.4	322.0
Correctional Health	-	-	46.9	235.6	254.4	258.4	264.1
Health and Other Services	88.8	105.0	122.5	100.6	73.7	55.6	55.6
Forensic Health Clinics	-	-	-	-	1.8	2.5	2.3
Collective Bargaining Agreements	-	85.3	181.0	205.0	273.8	292.5	292.8
Department of Investigation	-	-	\$4.5	9.5	9.5	9.5	9.5
H+H Reimbursements to New York City							
City Purchases on Behalf of H+H	(\$318.1)	(\$310.7)	\$0.0	(\$164.9)	(\$164.9)	(\$164.9)	(\$164.9)
Total Medical Malpractice	(140.0)	(140.0)	-	(140.0)	(140.0)	(140.0)	(140.0)
H+H Employment Fringe	(24.9)	(24.9)	-	(24.9)	(24.9)	(24.9)	(24.9)
Total Debt Service Payments**	(153.2**)	(145.8**)	-	-	-	-	-
Net New York City Payments to H+H	\$1,263.6	\$1,424.5	\$2,352.7	\$1,873.5	\$2,055.3	\$2,078.8	\$2,215.1

SOURCES New York City Health + Hospitals expense budget; city revenue budget; Mayor's Office of Management and Budget; New York City Health + Hospitals Financial Plans.

NOTES: *IBO estimates **Actuals from Mayor's Office of Management and Budget. Table includes both city and intra-city funding. Intra-city funding may consist of non-city funds. The city's local contribution for Medicaid services delivered by New York City Health + Hospitals are not included. New York City Health + Hospitals pension payments to the city are also not included as the city's pension systems are functionally distinct and New York City Health + Hospitals pays the New York City Employees' Retirement System directly. Budgeted figures have been adjusted by reversing pre-payments for 2017 and 2018 and a modification in 2017. ***There may be some double counting with total medical malpractice payments as the line item consists of \$140 million of budgeted medical malpractice costs in the city's revenue budget as well as ~\$17.3 million in medical malpractice repayment in New York City Health + Hospitals expense budget.

New York City Independent Budget Office

uninsured patients and for providing low-cost services that are not met by other public revenue streams. There are no clear rules for setting the subsidy's size, so the subsidy can vary from year to year. Also included is city funding for the nonfederal share for Medicaid supplemental payments, for additional personnel costs associated with recent collective bargaining agreements, and for increased city funding from the Department of Investigations to support the efforts of H+H's Inspector General's office to probe for fraud in the hospital system.

The city also makes certain purchases on H+H's behalf, such as employee Medicare and fringe benefits and pays for H+H's medical malpractice costs. The city has also been paying H+H's annual debt service on city-issued debt since 2016 (H+H still continues to pay debt service for bonds and bank loans it issues itself). H+H typically reimburses the city, although sometimes with a delay. H+H,

for example, still owes the city around \$300 million for payments made on its behalf in 2015 for fringe benefits, medical malpractice, and debt service. Additionally, H+H also provides and/or manages on behalf of the city certain medical and mental health services including correctional health services, family justice centers, school based health clinics, chronic disease, and HIV/AIDS programs.

Since Mayor de Blasio took office, the total amount of net city budgeted funding for H+H each year has grown from \$1.3 billion in 2014 to \$2.1 billion in 2018, and is projected to reach \$2.2 billion by 2020. By far the largest source of city funds has been the city match for the supplemental Medicaid payments H+H receives, which has amounted to about \$1 billion per year. Since 2014 the city has increased support for H+H through its unrestricted subsidy and by agreeing to provide funding for collective bargaining increases for H+H staff.

Net city funding actually peaked in 2016, when the de Blasio Administration forgave \$330 million in city payments H+H was scheduled to make for debt service on city bonds, medical malpractice, and payments for employee fringe benefits.⁵

H+H has also been increasingly involved in providing city services. For example, in June 2015, the Mayor announced that H+H would take over the management of correctional health services for the city's prison inmates, which was previously contracted out by the Department of Health and Mental Hygiene to Corizon Health, Inc. and Damian Family Care Centers. Since then, administrative staff from the health department who work on correctional health services have been transferred to the public hospital system, and H+H also began providing health services to city correction officers and other jail staff. In 2018 the correctional health budget is \$254 million.⁶

H+H is also playing a growing role in providing service for some of the Mayor's recent flagship health initiatives. As part of the [HealingNYC](#) effort, H+H received funds in the 2018 budget to help distribute naloxone kits to Rikers Island visitors, expand methadone treatment and buprenorphine access for people in jail, and improve treatment options upon discharge for inmates with substance abuse disorders. The public hospital system also received funding for additional medical consultation teams at four H+H facilities. These teams help connect patients to substance misuse treatment and ongoing care. In partnership with the [ThriveNYC](#) initiative, the Mayor's Office to Combat Domestic Violence, Columbia Medical Center's Department of Psychiatry, and the Chapman Perelman Foundation, H+H is also helping to staff, oversee, and provide onsite mental health services at the city's family justice centers.

In the preliminary budget for 2019, city funding was increased for the operation of H+H's four forensic

psychiatric evaluation court clinics. Formerly funded through a budget neutral transfer of funds, the city has now added \$281,000 this year, \$954,000 in 2019, and \$787,000 in 2020 and 2021 to expand staffing at the clinics. This consolidation and expansion is intended to reduce the time it takes to complete court-ordered psychiatric evaluations and also compliments the efforts the Mayor is currently undertaking to reduce lengths of stays in jails.

The fiscal future of H+H still remains dependent on the outcome of any changes to federal and state funding. Funding cuts to the Affordable Care Act, Medicaid, or Medicare could undermine H+H's efforts to bring its revenues and expenses into balance—and could force the city to further increase its subsidy of the public hospital system or cause H+H to undertake deeper restructuring cuts than planned.

Prepared by Melinda Elias

ENDNOTES

¹Source for unique patients served come from the Preliminary Fiscal 2018 Mayor's Management Report. <http://www1.nyc.gov/assets/operations/downloads/pdf/pmmr2018/hhc.pdf>

²This proportion is calculated from the H+H's Accrual Plan for the 2017 Adopted Budget.

³Citizens Budget Commission. "Medicaid Supplemental Payments: The Alphabet Soup of Programs Sustaining Ailing Hospitals Faces Risks and Needs Reform." August 31, 2017. By Patrick Orecki. <https://cbcny.org/research/medicaid-supplemental-payments>

⁴The projected budget shortfall was projected in the H+H accrual-based plan released with the 2017 Adopted Budget in June 2016. See: Independent Budget Office. "For NYC Health + Hospitals, Many Fiscal Risks Remain." March 2017. www.ibo.nyc.ny.us/iboreports/for-nyc-health-hospitals-many-fiscal-risks-remain-march-2017.pdf. Neither H+H nor the city have released an updated accrual plan since June 2016. The lack of an updated accrual plan has limited IBO's ability to assess H+H's current or future financial condition.

⁵Originally, the amount forgiven for 2016 was estimated at \$337 million. Subsequently, the actual amount of debt service forgiven was reduced by \$7 million.

⁶H+H receives correctional health funding via city and intra-city funding. Note: Some correctional health funding may also go into H+H's other service codes.

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