

June 2021

Will City Support for the Public Hospital System Continue to Increase?

Since 2016, the city's public hospital system, NYC Health + Hospitals (H+H), has been implementing a plan to improve and expand services while also strengthening the system's often precarious fiscal condition. Thanks to delays in anticipated cuts in federal funding, continued support from the city, and changes made under a plan based on [One New York: Health Care for Our Neighborhoods](#), the public hospital system's financial condition has improved. But challenges remain, especially because of the reliance on city, state, and federal funding mechanisms that are largely outside of H+H's control.

City support for the public hospital system comes through several means, including annual unrestricted subsidy payments as well as actions to leverage Medicaid supplemental payments that yield federal matching funds. In addition, the city pays H+H to provide a variety of services, including health care in the city's jails, and contributes funding to cover labor settlements for the systems' staff.

IBO estimates that as of the 2022 Executive Budget, New York City will provide a total of about \$2.6 billion in city funding to H+H this fiscal year—with expected hospital system expenditures totaling about \$11 billion.¹ (Unless otherwise noted, all years refer to city fiscal years.) Although planned net city payments to H+H in the remaining years of the financial plan are somewhat lower, they generally show a continuing pattern of growth in city support seen prior to the Covid-19 pandemic.²

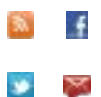
Supplemental Medicaid Payments. One of the primary ways the city has provided additional funding for H+H is by securing increased supplemental Medicaid payments. In addition to paying health care providers for caring for Medicaid patients, the Medicaid program can also provide subsidies to hospitals who treat disproportionately large

shares of Medicaid and uninsured patients in the form of supplemental payments.

Funding the city provides in order to trigger an increase in H+H's allotted Medicaid supplemental payments accounts for the main source of city support for H+H; this city funding is expected to increase from about \$1 billion annually in 2019 and 2020 to between \$1.4 billion and \$1.7 billion per year from 2021 through 2024. This has been the city's preferred option for funding H+H because these city dollars get a 100 percent federal match, doubling the funding H+H receives. Medicaid supplemental funding consists largely of Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) payments. UPL payments are increased reimbursements for providers treating a large share of fee-for-service Medicaid patients and DSH payments go to hospitals that provide care for a large share of Medicaid and uninsured patients. The plan to cut federal DSH payments, part of the effort to cover the cost of the Affordable Care Act, has been repeatedly postponed.

To enhance and improve the predictability of these supplemental payments, the city has been shifting funds previously allocated to an unrestricted subsidy and for the cost of collective bargaining increases and applying a growing share of these dollars to UPL and DSH. These shifts ultimately result in additional revenue for H+H because of the federal match.

Prior to 2020, the city provided an unrestricted subsidy of about \$265 million a year to H+H to help cover the cost of care for the uninsured and the delivery of other health services. When the city's 2021 budget was adopted last June, it transferred \$199 million budgeted for the unrestricted subsidy in 2020 to the city's Medicaid budget, lowering the 2020 subsidy to \$68 million. (Much of the



New York City Support for H+H as of the Fiscal Year 2022 Executive Budget, by Fiscal Year

Dollars in millions

	Actuals		Budgeted			
	2019	2020	2021	2022	2023	2024
City Support to H+H	\$2,096.6	\$1,797.9	\$2,561.8	\$2,273.5	\$2,331.1	\$2,365.4
Total Unrestricted City Subsidy	266.2	67.8	98.0	0.7	-	-
Supplemental Medicaid Payments*						
DSH Payments	715.5	712.6	908.9	625.7	658.3	658.3
UPL Payments	304.7	297.7	302.8	214.5	236.5	236.5
Medicaid Initiatives (pending CMS approval)	-	-	500.8	579.5	579.5	579.5
Subtotal Supplemental Medicaid Payments*	\$1,020.2	\$1,010.3	\$1,712.5	\$1,419.7	\$1,474.3	\$1,474.3
NYC Care		25.0	75.0	100.0	100.0	100.0
Collective Bargaining Agreements	376.9	238.7	164.1	220.0	200.3	209.1
Other City Support for H+H						
H+H Medical Malpractice**	135.6	113.4	157.3	157.3	157.3	157.3
H+H Debt Service on City Issued Bonds***	169.0	202.0	212.4	226.4	241.8	258.2
H+H Employment Fringe**	26.4	28.0	24.9	24.9	24.9	24.9
H+H Retiree Health****	97.1	104.4	112.0	120.0	128.0	137.0
H+H General Services	5.2	8.4	5.6	4.6	4.6	4.6
Subtotal Other City Support for H+H	\$433.3	\$456.1	\$512.2	\$533.2	\$556.5	\$581.9
City Funding to H+H for Services Provided	\$371.0	\$397.7	\$480.4	\$357.6	\$356.1	\$356.3
Department of Investigation	9.5	9.5	9.5	9.5	9.5	9.5
Funding to H+H to Provide Other Health Services						
NYC Test + Trace	-	-	97.9	-	-	-
Mental Health Services Corps	-	5.8	12.7	13.2	11.9	11.9
Correctional Health	266.6	271.4	275.6	274.4	275.0	275.0
Just Home	-	-	-	1.1	1.1	1.1
Forensic Health Clinics	5.1	4.9	4.9	4.9	4.9	4.9
Health Services	89.8	106.1	79.8	54.5	54.0	54.0
Subtotal Funding to H+H to Provide Other Health Services	\$361.5	\$388.2	\$470.9	\$348.1	\$346.6	\$346.8
Total New York City to H+H	\$2,467.6	\$2,195.5	\$3,042.2	\$2,631.1	\$2,687.2	\$2,721.7
H+H Reimbursements to NYC						
Total Medical Malpractice**	118.3	96.1	140.0	140.0	140.0	140.0
H+H Employment Fringe**	26.4	28.0	24.9	\$24.9	\$24.9	24.9
H+H Reimbursement for Debt Service on City Bonds***	-	-	212.4	-	-	-
H+H Retiree Health****	97.1	104.4	112.00	120.0	128.0	137.0
H+H Reimbursement for Prior-Year Payments	371.5	-	-	-	-	-
Subtotal H+H Reimbursements to NYC	\$613.3	\$228.4	\$489.3	\$284.9	\$292.9	\$301.9
Net City and Intracity to H+H	\$1,854	\$1,967	\$2,553	\$2,346	\$2,394	\$2,420

SOURCE: H+H expense budget; Miscellaneous Revenue budget; Mayor's Office of Management and Budget (OMB) calculations and IBO estimates

NOTES: *OMB based on H+H's 2022 Executive Financial Cash Plan. **OMB actual 2019 and 2020. ***OMB actual for 2020 and estimate for 2021. IBO estimates for 2019, 2022, 2023, and 2024. Calculation for 2019 grew actual debt service of 2017 by average growth rate of actual debt service for 2015-2017. Calculation for 2022-2024 used 2021 OMB estimate as a base and growing it by average growth rates for actuals for fiscal years 2017-2021 (2018 and 2019 are IBO estimates, not actuals); ****OMB 2019 and 2020 are actuals. Numbers may not add due to rounding.

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city's Medicaid budget becomes revenue for H+H.) This enabled H+H to draw matching federal payments for a higher-than-expected Disproportionate Share Hospital payment in 2020.

Similarly, in the 2022 Preliminary Budget, there was a \$315 million transfer from the H+H budget to the city Medicaid budget for 2021, with another \$186 million shifted in the latest Executive Budget for a total of \$501 million. With the funds budgeted for the subsidy greatly diminished,

these subsequent shifts drew from H+H support previously budgeted for collective bargaining settlements. The Executive Budget for 2022 also transferred \$580 million per year in 2022 and later years from both H+H's unrestricted subsidy and H+H's collective bargaining budget.³ (These transferred funds are reflected under Medicaid Initiatives in the table on page 2.)

Supplemental Payments at Risk? There is no guarantee H+H will continue to be able to secure this level of supplemental payments. UPL payments are set to decline after 2021 due to the state's on-going shift from fee-for-service Medicaid to managed care and a change in the formula used by the federal government. To counter this revenue loss, a recent state policy change (labeled "Medicaid Initiatives" in the table) aims to convert UPL payments to Medicaid rate add-ons that are expected to result in H+H receiving more stable and higher payments. H+H is currently in the process of negotiating an agreement with the state to access this new arrangement, which is also subject to approval by the federal government's Center for Medicare and Medicaid Services.

If H+H secures the agreement, the state policy change will more than offset the estimated loss of UPL payments in 2021 through 2024. While budget neutral for the city, the 2022 Preliminary and Executive Budget transfers allow the city to draw down the matching federal funds for H+H. In 2021, city UPL funds for H+H would increase from \$303 million to a total of \$804 million if the state's new policy is approved and remain at roughly that amount in 2022 through 2025.

Although the short-term outlook for DSH payments is positive, revenue from this source may begin to fall in a couple of years. H+H has typically received around \$1.4

billion in DSH funding (combining federal and non-federal matching funds), but for 2021 total funding for DSH payments is estimated to increase to around \$2.2 billion, with the city's share growing to \$909 million as of the Executive Budget. The increase for 2021 is due to the combination of a restoration of DSH funding because of the so-called "DSH Glitch" (see below), prior year cash rolls, and budget reconciliations. Expected DSH reductions by Washington have been delayed until federal fiscal year 2023 under Covid-19 relief legislation. This prevented an estimated revenue loss of \$580 million in 2021 and \$622 million in 2022 for H+H.⁴ Beginning in city fiscal year 2023, however, H+H could lose some of its federal DSH funding because of the scheduled cuts, although the de Blasio Administration has left the city's matching share at current levels in place for now.

The DSH Glitch Restoration. The Families First Coronavirus Relief Act included a provision that increased the federal matching rate for Medicaid reimbursement by 6.2 percentage points for the duration of the pandemic. For New York State, this lifted the matching rate up to 56.2 percent. The increased federal funds enabled the city to reduce its share of Medicaid payments in 2022, including DSH payments. Since New York State is limited to a fixed DSH allocation, any enhanced federal funding for DSH payments would end up reducing the amount of non-federal funding that the city is required to put up in order to tap its share of the federal allocation. Thus, H+H would not be able to receive additional funding because federal dollars would just replace the amount of non-federal funding that it typically used. However, the recently enacted American Rescue Plan Act includes a provision that allows H+H to receive an increase in federal funds without requiring an equivalent decrease in non-federal funds. This results in

Disproportionate Share Hospital and Upper Payment Limit Budget Revenues as of H+H's Fiscal Year 2022 Executive Budget Financial Cash Plan

Dollars in millions

		2021	2022	2023	2024	2025
Disproportionate Share Hospital	City	\$908.9	\$625.7	\$658.3	\$658.3	\$658.3
	State	52.9	56.7	60.4	60.4	60.4
	Federal	1,225.2	773.6	718.7	96.7	96.7
	Total	\$2,187.0	\$1,455.9	\$1,437.5	\$815.5	\$815.5
Upper Payment Limit	City	302.8	214.5	236.5	236.5	236.5
	State	3.8	3.9	4.4	4.4	4.4
	Federal	369.0	263.2	240.8	240.8	240.8
	Total	\$675.6	\$481.60	\$481.60	\$481.60	\$481.60

SOURCE: Mayor's Office of Management and Budget
NOTE: Does not include funding for "Medicaid initiatives."

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additional funding for H+H. H+H estimates that this change will restore \$894 million in total funding through 2022, assuming the enhanced federal Medicaid matching funding period will continue until December 2021.⁵

Other City Support. Other areas of city support to H+H include funding for the NYC Care program, which connects uninsured New Yorkers who do not have regular doctors with a primary care physician. As previously mentioned, the city also funds additional personnel costs associated with recent collective bargaining agreements. Additionally, the city covers certain other costs on H+H's behalf such as medical malpractice payments, retiree health costs, and fringe benefit expenditures made on behalf of H+H staff, for which H+H then reimburses the city. In the past, these reimbursements were often delayed—and sometimes were forgiven. In 2016, the city gave \$497 million of extra support and forgave a total of \$737 million in debt service owed by H+H for bonds the city issued on the system's behalf. By 2019, however, the hospital system made a total of \$371 million in prior obligation payments for 2015 and 2016, and this year H+H made a one-time \$212 million current-year payment.⁶ According to the Mayor's office, the system is now up-to-date with all of its agreed payments.

City Funding for the Provision of Services. The city also pays H+H for providing services on its behalf. In 2015, H+H became the provider of health services in city jails. In 2019, the city consolidated and then expanded staffing of its four H+H forensic psychiatric evaluation court clinics, which mainly conduct fitness-to-stand trial examinations for individuals who are incarcerated and awaiting trial.⁷ Starting in 2016, city funding was added to the H+H budget from the Department of Investigation to support the efforts of H+H's Inspector General's office to investigate fraud in the hospital system. The city's Mental Health Service Corps—a ThriveNYC program previously run by the Department of Health and Mental Hygiene—was also transferred to the hospital system. Additionally, with the outbreak of the Covid-19 pandemic, H+H was placed in charge of administering New York City's test and trace program. The program is largely federally funded, although

city funding in 2021 is \$98 million.⁸ As a result of the implementation of test and trace, total city funding for services provided by H+H is expected to reach \$480 million this fiscal year. It is unclear how much funding the test and trace program will need in future years, as the course of the pandemic is uncertain.

H+H also provides a range of other health services on behalf of the city and other city agencies.⁹ In the most recent 2022 Executive Budget, \$1 million per year in city funding was added for 2022 and later years from the Department of Health and Mental Hygiene for CHS Just Home, a supportive housing initiative that provides housing for medically frail formerly incarcerated individuals at Jacobi Hospital.¹⁰

Risks. H+H has made progress towards many of its *One New York* goals, but as in many agencies and organizations the Covid-19 pandemic has disrupted plans. While the fiscal outlook for the city, the state, and H+H look brighter than they did last spring, risks remain.

The New York State Enacted Budget for state fiscal year 2022 postponed or reversed a number of proposals that had been in the Governor's Executive Budget as well as provisions in last year's state budget that would have reduced funding available for H+H. Although avoided for now, the state still faces a structural gap between what its Medicaid system costs and the resources to pay for it, making it likely that once Covid-related federal funding ends, efforts by the state to control Medicaid costs will return, bringing new threats to H+H's finances. While provisions in the American Rescue Plan Act will bring H+H more revenue than previously anticipated, the future course of the pandemic could also result in additional costs. These uncertainties could make it more difficult for H+H to complete its reform plan and could affect the level of city support that the public hospital system will require in the years ahead.

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Endnotes

¹This includes Intra-city funding, funds that are transferred between H+H and other city agencies. Note IBO's estimate does not take into account the city's contribution to the state's Medicaid program for treating Medicaid patients at NYC Health + Hospitals and elsewhere in the state. It also excludes city funding for H+H in the city's capital commitment plan.

²For a summary of the de Blasio Administration's budget changes for H+H prior to city fiscal year 2019, see the following IBO report: [City Subsidies Grow, Federal Cuts Delayed but Fiscal Challenges Remain for NYC's Public Hospitals](#)

³The breakdown of the supplemental Medicaid adjustment in the fiscal year 2021 financial plan is the following: \$185.8 million transfer to the HRA budget in fiscal year 2021 (\$178.3 million takedown from the unrestricted subsidy and \$7.5 million takedown from the collective bargaining budget). In fiscal year 2022+ the breakdown is the following: (\$264.4 million takedown from the unrestricted subsidy and \$315.1 million takedown from the collective bargaining budget).

⁴These savings only account for federal dollars. The city always assumed in their financial plans that if DSH cuts were to happen the city would continue to fund the local share of DSH.

⁵This provision is retroactive to coincide with the temporary Federal Medical Assistance Percentage (FMAP) increase for Covid-19 that was enacted in March 18, 2020 in the Families First Coronavirus Relief Act (FFCRA). FFCRA increased the FMAP by 6.2 percentage points to be retroactive as early as January 1, 2020 and set to end on the last day of the calendar quarter in which the Covid-19 public emergency period ends.

⁶The breakdown of \$371.48 million of payments in 2019 is the following: \$74.7 million in retiree health benefit payments for 2016; \$146 million in debt service payments for 2015; \$123.4 million for medical malpractice in 2015; \$21.1 million in health fringe benefits for 2015; and \$7 million in other fixed central costs for 2015.

⁷"[NYC Health + Hospitals to Consolidate Under Correctional Health Services Management of its Forensic Psychiatric Evaluation Court Clinics.](#)" Press Release. February 2, 2018. NYC Health + Hospitals Consolidates Psychiatric Evaluation Court Clinics | NYC Health + Hospitals (nyhealthandhospitals.org)

⁸Total budgeted revenues for the test and trace program as of the fiscal year 2022 Executive budget H+H financial cash plan is \$1.8 billion in fiscal year 2021 and \$1.2 billion in fiscal year 2022.

⁹City and intra-city budget support for other health services totaled \$106 million in 2020 but are currently budgeted to shrink almost by half by 2022. However, the decline could be because intra-city funding tends to be added during the current fiscal year is rarely budgeted in the out-years.

¹⁰This is part of the NYC 15/15 supportive housing program.