THE COUNCIL OF THE CITY OF NEW YORK

Finance Division

# Hearing
# on the Fiscal 2010 Executive Budget
# for the
# **Health and Hospital Corporation**

May 27, 2009

**Hon. Christine C. Quinn**
Speaker

**Hon. David I. Weprin**
Chair, Committee on Finance

**Hon. Joel Rivera**
Chair, Committee on Health


**Preston Niblack**
Director

**Jeffrey Rodus**
First Deputy Director

**Latonia McKinney**
Deputy Director

**Crystal Coston**
Legislative Financial Analyst

# Health and Hospitals Corporation (819)

## Agency Overview

The New York City Health and Hospitals Corporation (HHC) provides comprehensive medical, mental health, and substance abuse services to New York City residents, regardless of their ability to pay. Through its seven regional health care networks, the Corporation operates eleven acute care hospitals, four long-term care facilities, six diagnostic and treatment centers, a certified home health program, and more than 80 community-based health clinics throughout the five boroughs. In addition, MetroPlus, the wholly-owned health maintenance organization, provides care to more than 354,000 New Yorkers. The Corporation also provides emergency and inpatient services to New York City's correctional facilities' inmate population and conducts mental health evaluations for the family courts in the Bronx, Brooklyn, Queens, and Manhattan.

The Corporation is the nation's largest public hospital system operating 4,866 inpatient beds and 2,835 nursing facility beds. In 2008, the Corporation's facilities had more than 224,000 patient discharges, 4,868,000 clinic visits and 896,000 emergency room visits, serving more than 1.3 million people, of which more than 448,000 lacked any form of health insurance.

# NYC Health & Hospitals Corporation

***Accrual Basis***

***Executive 10 Plan***

**(S in millions)**

| | Projected 2009 | Projected 2010 | Projected 2011 | Projected 2012 | Projected 2013 |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| **Third Party Revenue** | | | | | |
| Medicaid Fee for Service | 1,513.8 | 1,501.3 | 1,454.5 | 1,487.5 | 1,517.5 |
| Medicare | 606.2 | 618.4 | 630.7 | 643.4 | 656.2 |
| Other Third Parties | 937.6 | 984.4 | 1,033.7 | 1,085.3 | 1,139.6 |
| Pools & Additional Revenue | 1,340.2 | 1,974.7 | 1,411.0 | 1,411.0 | 1,411.0 |
| **Subtotal: Third Party Revenue** | **4,397.8** | **5,078.9** | **4,529.8** | **4,627.1** | **4,724.3** |
| **Funds Appropriated by the City** | | | | | |
| Debt Service | (58.2) | (69.0) | (67.4) | (59.4) | (63.2) |
| Prisoner/Uniform Services | 52.6 | 52.6 | 52.6 | 52.6 | 52.6 |
| Other City Services | 31.6 | 28.2 | 27.9 | 27.9 | 27.9 |
| Unrestricted City Services | 9.3 | 4.0 | 5.2 | 5.3 | 5.6 |
| Adjustment for Prepayment | 85.0 | (85.0) | - | - | - |
| CEO: Nursing Ladder Program | 1.1 | 1.1 | - | - | - |
| **Subtotal: Funds Appropriated by the City** | **121.4** | **(68.2)** | **18.3** | **26.3** | **22.9** |
| **Grants (including CHP and Intra-City)** | **264.7** | **213.2** | **212.7** | **213.9** | **213.9** |
| **Other Revenue** | **38.4** | **39.3** | **40.3** | **41.3** | **42.3** |
| **MetroPlus Premium Revenue** | **962.7** | **1,097.0** | **1,130.6** | **1,149.2** | **1,167.2** |
| **TOTAL OPERATING REVENUES** | **5,784.9** | **6,360.2** | **5,931.7** | **6,057.9** | **6,170.6** |
| **OPERATING EXPENSES** | | | | | |
| Personal Services | 2,535.4 | 2,616.1 | 2,668.4 | 2,721.8 | 2,776.2 |
| Fringe Benefits | 1,037.4 | 1,074.5 | 1,142.5 | 1,202.3 | 1,262.4 |
| Other Than Personal Services | 1,637.6 | 1,687.5 | 1,739.0 | 1,792.0 | 1,846.7 |
| Information Systems | - | - | - | - | - |
| Medical Malpractice | 155.0 | 189.9 | 189.9 | 189.9 | 189.9 |
| Affiliations | 770.0 | 800.8 | 824.8 | 849.6 | 875.1 |
| Depreciation | 232.7 | 250.0 | 260.0 | 270.0 | 280.0 |
| Postemployment benefits, other than pension (Excl PYG) | 335.6 | 364.1 | 395.1 | 428.7 | 465.1 |
| **TOTAL OPERATING EXPENSES** | **6,703.7** | **6,982.9** | **7,219.7** | **7,454.2** | **7,695.4** |
| **TOTAL OPERATING INCOME/(LOSS)** | **(918.8)** | **(622.7)** | **(1,288.0)** | **(1,396.3)** | **(1,524.7)** |
| **NON-OPERATING REVENUE/(EXPENSE) -** | | | | | |
| Interest Income | 16.0 | 25.0 | 20.0 | 15.0 | 10.0 |
| Interest Expense | (122.1) | (120.0) | (120.0) | (120.0) | (120.0) |
| **Total Non-Operating Expenses (net)** | **(106.1)** | **(95.0)** | **(100.0)** | **(105.0)** | **(110.0)** |
| **PROFIT/(LOSS) BEFORE OTHER CHANGES IN NET ASSETS** | **(1,024.9)** | **(717.7)** | **(1,388.0)** | **(1,501.3)** | **(1,634.7)** |
| **CORRECTIVE ACTIONS** | | | | | |
| State/Federal Actions | - | 20.0 | 460.0 | 485.0 | 525.0 |
| Corporate Savings Initiatives | - | 316.0 | 316.0 | 316.0 | 316.0 |
| Medical Malpractice Containment | - | 25.0 | 25.0 | 25.0 | 25.0 |
| **Subtotal: Corrective Actions** | **0.0** | **361.0** | **801.0** | **826.0** | **866.0** |
| **PROFIT/(LOSS) AFTER CORRECTIVE ACTIONS** | **(1,024.9)** | **(356.7)** | **(587.0)** | **(675.3)** | **(768.7)** |
| **PRIOR YEAR CASH BALANCE** | **879.7** | **237.4** | **922.2** | **657.6** | **349.8** |
| **ACCRUAL TO CASH ADJUSTMENT** | **382.7** | **1,041.5** | **322.4** | **367.5** | **425.0** |
| **CLOSING CASH BALANCE** | **237.4** | **922.2** | **657.6** | **349.8** | **6.1** |

## Executive Budget Overview

According to the Health and Hospital Corporation's (HHC) Fiscal 2010 Executive Plan, it will end the current fiscal year with a cash balance of $237.4 million on an accrual basis. Using this cash balance, the HHC will roll funds toward the projected Fiscal 2010 deficit of $356.7 million. However, the Corporation will be $119.3 million short of covering this projected deficit. This is significant because the Corporation must retain a substantial cash balance to meet its ongoing payroll and other obligations and low cash balances lead to instability that necessitate reductions, which the Corporation proposed during the Fiscal 2010 Preliminary Budget when it announced the first part of its gap closing plan to reduce its Fiscal 2010 budget gap. These reductions included significant service reductions, which unfortunately consisted of headcount, and hospital-based program reductions and clinic closures.

**Revenues**

The HHC anticipates its total operating revenue to increase from $5.8 billion in Fiscal 2009 to $6.2 billion in Fiscal 2013. Third party revenue, which includes payments for Medicaid, Medicare, and Disproportionate Share Hospital (DSH) funding, comprised the largest portion of the HHC's operating revenue, and it increases from $4.4 billion in Fiscal 2009 to $4.7 billion in Fiscal 2013. The other major source of revenue for the HHC is Metroplus premium revenue, which also increases between Fiscal 2009 and Fiscal 2013, from $963 million to $1.2 billion, an increase of $204 million or 21 percent.

**Expenses**

The HHC anticipates total operating expenses to increase from $6.7 billion in Fiscal 2009 to $7.7 billion in Fiscal 2013, an increase of $1 billion or 15 percent. A majority of the HHC's operating expenses are from personal services (PS) costs, which includes salaries and fringe benefits. Projected spending for personal services increased from $2.5 billion in Fiscal 2009 to $2.8 billion in Fiscal 2013. This projected increase is based on the City's proposed collective bargaining pattern for PS disbursements, which increases by 3.2 percent in Fiscal 2010 and two percent from Fiscal 2011 to 2013. Fringe benefit disbursements also increase between Fiscal 2009 and Fiscal 2013, from $1 billion to $1.3 billion, or by 30 percent. This increase is due to increases in pension and health insurance costs. In Fiscal 2011, fringe benefits are expected to increase by seven percent, which is primarily due to a large spike in pension contributions because of the recognition of Fiscal 2008 asset returns. However, for the reminder of the plan, fringe benefit expenses increase by five percent annually.

**State Issues and Highlights**

The HHC's number of uninsured patients is increasing. In 2008, it served 450,000 uninsured patients at an estimated cost of $850 million, which is eight percent more than the number it served in 2007. Because of this, the HHC anticipated approximately $460 million in additional federal Disproportionate Share Hospital (DSH) funding. However, the State budget grants the HHC only $300 million in additional DSH funds. The $300 million consists of $150 million in federal funding with a $150 million City match. Final New York State Budget actions also include a disproportion reduction in Medicaid funding to the HHC and excludes public hospitals from approximately $408 million in transitional reform funds. Given these financial challenges, the Corporation will implement another budget reduction plan to address these significant State budget actions. Unfortunately, these reductions will most likely result in further service reductions to services that the Corporation proposed to cut during the Fiscal 2010 Preliminary Budget, which included the closure of a number of programs and clinics (pending State approval) by June 2009 and 400 staff reductions through layoffs and attrition.

## Capital Budget

The May 2009 Capital Commitment Plan includes $772 million in Fiscal 2009-2013 for the HHC (including City and Non-City funds). This represents less that one percent of the City's total $47.1 billion May Plan for Fiscal 2009-2013. The agency's May Commitment Plan for Fiscal 2009-2013 is 10 percent less than the $854 million in the January Commitment Plan, a decrease of $82 million.

Over the past five years, the HHC has only committed an average of 41 percent of its annual capital plan. Therefore, it is assumed that a large portion of the agency's Fiscal 2009 Capital Plan will be rolled into Fiscal 2010, thus greatly increasing the size of the Fiscal 2010-2014 Capital Plan. Since adoption last June, the Capital Commitment Plan for Fiscal 2009 has remained at $414.3 million.

Currently, the HHC appropriations total $287.2 million in City funds for Fiscal 2009. These appropriations are to be used to finance the HHC's $216.7 million City-funded Fiscal 2009 Capital Commitment program. The agency has over 33 percent more funding than it needs to meet its entire capital commitment program for the current fiscal year.

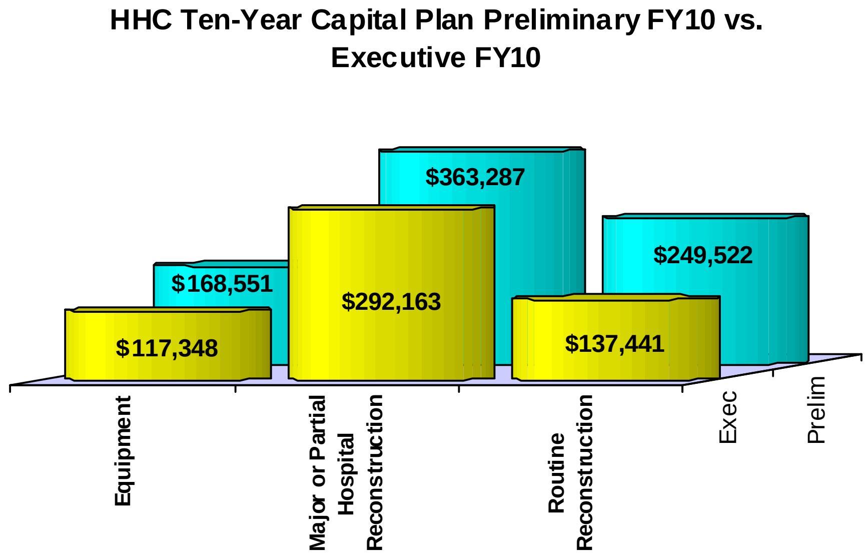
In January the Mayor announced his intention to reduce the City's capital plan by 30 percent. The objective of the capital cut is to reduce the amount of the City's general obligation (GO) debt service as a percentage of total revenues. The 30 percent reduction in the Ten-Year Capital Plan Fiscal 2010 – 2019 would reduce the long-term average annual growth in debt service costs to 3.4 percent, equal to the level of forecast growth in City revenues. The 2010 Executive Capital Budget includes $47.0 billion in planned commitments for Fiscal 2010 – 2019. This total includes $12.8 billion in commitments for capital projects for the Department of Environmental Protection (DEP) which are funded primarily by non-GO debt. The GO-funded portion of the Fiscal 2010 – 2019 Executive Capital Plan is $34.2 billion; this is $6.9 billion or 16.9 percent less than the $41.1 billion Preliminary Fiscal 2010 – 2019 Capital Plan.

### The HHC's Capital Commitment Plan, 2009-2013

*Millions of dollars*

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | TOTAL |
|---|---|---|---|---|---|---|
| **January Plan** | | | | | | |
| City | $414.3 | $81.2 | $109.0 | $82.4 | $167.3 | $854.2 |
| Non-City | | | | | | |
| **Total** | **$414.3** | **$81.2** | **$109.0** | **$82.4** | **$167.3** | **$854.2** |
| **Executive Plan** | | | | | | |
| City | $414.3 | $56.8 | $76.3 | $57.7 | $117.1 | $722.2 |
| Non-City | | | | | | |
| **Total** | **$414.3** | **$56.8** | **$76.3** | **$57.7** | **$117.1** | **$722.2** |
| **Difference** | | | | | | |
| City | $0 | $24.4 | $32.7 | $24.7 | $50.2 | $132 |
| Non-City | | | | | | |
| **Total** | **$0** | **$24.4** | **$32.7** | **$24.7** | **$50.2** | **$722.2** |
| **Percent Chng.** | **0%** | **(30%)** | **(30%)** | **(30%)** | **(30%)** | **(15%)** |

## Executive Ten-Year Capital Strategy, 2010-2019




According to the Executive Ten-Year Capital Strategy, the focus of the Health and Hospitals Corporation's Ten-Year Capital Plan is to improve the physical plants to comply with regulatory requirements and to address customer satisfaction, market demands, and community health care. The agency's Ten-Year Preliminary Capital Plan totals $547 million (City funds) which is a decrease of $234 million, or 30 percent from the Fiscal 2010 Preliminary Capital Commitment Plan of $781 million (City funds). As indicated in the adjacent graph comparing the Fiscal 2010 Preliminary Ten-Year Capital Plan to the Fiscal 2010 Executive Ten-Year Capital Plan, $292.2 million, or 53 percent is planned for hospital reconstruction, $137.5 million or 25 percent is planned for routine reconstruction, and $117.3 million or 21.4 percent is planned for EMS ambulance purchases, and major medical equipment.

## Executive Capital Commitment Plan, 2009-2013

Nearly two-thirds of the commitments in the agency's Preliminary Ten-Year Capital Plan are for three major hospital reconstruction projects.

- The largest portion of these funds, $231.8 million is allocated for the Modernization of the Harlem Hospital campus. This consists of renovation to the existing Martin Luther King Pavilion, and construction of a new pavilion on Lenox Avenue that will connect the King Pavilion to the Ron Brown Ambulatory Care Pavilion to create one unified healthcare complex. The new pavilion will include a new emergency department, surgery department, diagnostic and treatment services, a critical care suite and a modern radiology center. The modernization will unify the hospital campus, which currently comprises seven buildings over two blocks; renovate the inpatient bed tower; provide a garage for use by the hospital community; build a new FDNY Emergency Medical Service (EMS) garage; and provide an overall patient-friendly and staff-efficient environment. Included in the modernization plan for Harlem Hospital is the restoration of priceless WPA-era art murals, which are housed in the existing Harlem Hospital Center campus. However, as a result of the 30 percent reduction to the HHC's ten-year Capital Plan, the amount planned for this project was reduced by 47.9 million from the Fiscal 2010 Preliminary Capital Commitment Plan. This reduction will impact phase II of the modernization, which consist of HVAC, reductions in medical equipment, and clinical space.

- A total of $130 million is included in the Plan for the major modernization and expansion of Gouverneur Hospital. This is presently in the design phase. The project will upgrade the existing infrastructure and expand and consolidate the ambulatory care and nursing facilities within separate areas of the building. This will permit staffing and functional efficiencies, increase out patient capacity and increase the number of beds. However, this project is also affected by the 30 percent reduction in the HHC's Ten-Year Capital Plan and has been reduced by $11 million.

- A total of $30.6 million remains in the Plan for the completion of Phase IV at Kings County Hospital Center. This phase of the project, which consists of the Major Redevelopment Project, is the construction of a new Behavioral Health Center. This seven-story, 300,000 square foot facility will provide 230 private and semi-private Inpatient Mental Health and Chemical Dependency beds, a new Psychiatric Emergency Center, and a wide range of outpatient and day treatment programs. The new Behavioral Health Center will replace and consolidate services now provided in seven older buildings on campus. The building will be located between the current "A" and "T" Buildings with a Main Entrance on Clarkson Avenue. The new Behavioral Health Center will be a facility for the provision of healthcare services to the mentally ill and chemically dependent.