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# Report Finds 'Troubled' Finances at H.H.C.

By Dan Goldberg

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The New York City Health and Hospitals Corporation is facing a $3.2 billion shortfall by the end of Mayor Bill de Blasio's first term, and its plans to close the gap "are at best risky and may prove unachievable," according to a report from the Citizens Budget Commission.

"H.H.C.'s financial picture is troubled," the report said. Without other actions, H.H.C., the largest public hospital system in the country, "will run out of cash by fiscal year 2017."

The nearly $7 billion system, comprised of 11 acute care hospitals, four skilled nursing facilities, six large diagnostic and treatment centers and more than 70 community-based clinics, serves 1.4 million New Yorkers every year.

While the Affordable Care Act has reduced the number of uninsured patients treated by H.H.C., the corporation still treats hundreds of thousands of undocumented immigrants, many of whom are uninsured.

H.H.C. cares for 18 percent of all hospital inpatients in the city but 45 percent of the uninsured inpatients, and in 2012, 70 percent of clinic visits and 43 percent of emergency room visits by uninsured patients were to H.H.C. facilities.

Treating those uninsured is, and always has been, the corporation's largest financial obstacle. Much of its revenues—Medicaid payments and MetroPlus insurance premiums—are set by state officials, who have vested interests in keeping costs down.

Gov. Andrew Cuomo has made it a priority to reduce the amount the state spends on Medicaid, which wreaks havoc on hospitals and health systems that treat a disproportionate number of lower-income people.

"I think that's one of the major challenges," said Elizabeth Lynam, a vice president at C.B.C. and author of the report. "We have given them the mandate to care for the poor, for the uninsured. How do they meet this mandate when the revenues available are shrinking?"

Hospitals and health systems have responded by placing greater emphasis on managed-care models, the idea that a provider is paid a set amount per patient regardless of how much care that person needs. In that model, it pays to keep the person out of the hospital. It relies heavily on care coordination and follow-up care, and works best when treating chronic, but manageable, conditions such as diabetes or hypertension. The problem H.H.C. faces is that it has always cared for a lower-income and less healthy population than the city as a whole, making care management that much harder.

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Patients who visit H.H.C. are often sicker when they walk in, Lynam said, meaning they are more expensive to treat. They typically have less access to primary care.

“These patients have a lot of life challenges,” she said. “They are more challenging to keep in touch with. Regular contact with primary care is hard to do if people are transient. These are the people who need care the most because they are traditionally underserved.”

H.H.C. officials have themselves been warning of fiscal trouble for some time. A little more than one year ago, Alan Aviles, then-president of H.H.C., told a *Crain's* forum, "there is little appreciation for how endangered H.H.C. is."

Last December, Capital reported that KPMG auditors said what H.H.C. needed was a "hard discussion with not only management but the city as to whether or not this organization, from a financial statement presentation perspective, is a going concern.”

In May, Dr. Ram Raju, appointed as head of H.H.C. in January, detailed to the City Council his plan for closing this fiscal year's $200 million gap, and H.H.C. officials have offered cost containment initiatives that add up to more than $1 billion over the next four years. But the C.B.C. points out that “these cost containment figures for future years lack specificity and detailed plans to achieve them.”

Ana Marengo, an H.H.C. spokeswoman, provided the following response to the report:

"This reports highlights H.H.C.'s vital role in the healthcare landscape of New York City. As we face financial challenges, which are inherit in any public system, H.H.C. is committed to working with all government officials at the city, state and federal level to preserve our mission, serve New Yorkers, without exception, and ensure the long-term financial health of the corporation."

H.H.C. officials have said during past meetings with the City Council that their books will be boosted by the state's Medicaid waiver program, and have said they are seeking $2 billion over five years, or $400 million per year.

It's not clear if H.H.C. will be awarded that much money or whether it will meet the specific targets required to capture that money.

“Pay-for-performance models carry particular risk for H.H.C., which serves patients for whom care is difficult to manage,” the C.B.C. report said.

The bright spot during the past couple years has been MetroPlus, the insurance offering from H.H.C.

MetroPlus comprises a Medicaid plan and a private insurance offering on the state's exchange and its profit margin has risen from 3.8 percent in 2010 to 5.2 percent in 2013.

“Although the margin increased, it is not likely to increase enough to allow H.H.C. to cover major shortfalls in other areas,” the C.B.C. report said.

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The report also acknowledged the political difficulties that any restructuring plan would face. In-patient utilization rates are declining across the nation as more people are being treated at outpatient facilities. That is usually a more cost-effective way to provide care but leaves hospitals with empty beds. That problem can be particularly acute for a system with 11 hospitals built for a different era of care, but pressure from unions and politicians make shrinking in-patient capacity a challenge.

“If we want H.H.C. to modernize, then we can't tether them to the old world," Lynam said. "We know they have to change their make up. We can't insist on the 19th century model while we are asking them to forge ahead in the new world.”

It would be politically difficult to decertify H.H.C.s' empty beds, or to close any of the 11 hospitals, particularly under Mayor Bill de Blasio, who campaigned on saving Long Island College Hospital and railed against former mayor Michael Bloomberg for allowing hospitals to close.

“Shrinking hospital capacity is a political challenge,” the C.B.C. report said. “If all goes well with H.H.C.’s effort to reduce preventable admissions and H.H.C. is to ‘right-size’ its services, support from elected leaders will be needed.”

The de Blasio administration did not respond to a request for comment.

Political will would also be required for one of the C.B.C. report's most intriguing suggestions. To reduce the number of uninsured patients who visit H.H.C., the report recommended corporation leaders advocate for requiring private, nonprofit hospitals care for the uninsured in order to receive certain tax exemptions.

“The voluntary sector needs to step up, too, and we all need to acknowledge there is a social responsibility here,” Lynam said.

The de Blasio administration, like the Bloomberg administration, has so far been generous with H.H.C. In August, Capital reported that the City Council appropriated the first $95 million transfer to H.H.C. to cover the incremental cost of the labor contracts. The problem, the C.B.C. reports, is that those contracts extend beyond the mayor's first term.

If a new mayor were to change policy, the contracts are still valid, but H.H.C.'s support could disappear.

“There's nothing really structural about their relationship that allows either side to plan for the need,” Lynam said. “It's the science of muddling through.”