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Fiscal Challenges for NYC's Health and Hospitals Corporation

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Bellevue Hospital's pivotal position in New York City's efforts to combat Ebola underscores the crucial role that the City's Health and Hospitals Corporation plays. Its 11 public hospitals and other facilities and services provide care to more than one million patients annually. Yet its fiscal condition is troubled, and fixing it should be a high priority.

In fiscal year 2013, the Health and Hospitals Corporation (HHC) ran a deficit of $668 million. Final numbers for fiscal year 2014 have not been released, but the estimated deficit is $645 million. The imbalance between revenues and expenditures is expected to worsen from $702 million in fiscal year 2015 to $1.7 billion in fiscal year 2018.

In addition, HHC's cash resources are being depleted. Without an aggressive gap-closing plan they will be exhausted in fiscal year 2016.

The Citizens Budget Commission, which I lead, recently issued a policy brief analyzing the situation. Titled "Fiscal Challenges Facing the New York City Health and Hospitals Corporation," it highlights four major challenges:

The first is designing and implementing expenditure controls. In September 2009, HHC embarked on a restructuring effort with 39 cost-saving initiatives totaling more than $300 million in anticipated annual savings. HHC reports achieving $230 million in savings from these initiatives in fiscal year 2013, but some proposed changes, such as the privatization of outpatient dialysis services, have not been achieved. HHC has identified $90 million in additional specific cost-containment actions for the current fiscal year; however, its financial plan assumes another $200 million in savings in the current fiscal year and savings growing to $400 million annually in fiscal year 2018. To realize savings of that magnitude, HHC will need to intensify its efforts to make service delivery more efficient and reduce unneeded hospital capacity.

The second challenge is effectively managing MetroPlus -- a major, Medicaid, managed care plan operated by HHC with annual revenues of $2.2 billion. An effective management strategy for MetroPlus has two parts: a) growing enrollment with an increased emphasis on greater market share; b) maximizing the cost-coverage ratio while improving quality. The recent substantial growth

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in MetroPlus's revenue is due largely to its enrollment growth, which more than doubled to 467,823 from 2005 to 2014. This growth can be attributed to expanded Medicaid eligibility and state policies mandating managed care among those eligible. MetroPlus will have opportunities to reach additional Medicaid eligibles in coming years, but increasingly its enrollment growth will rely on an increased market share rather than a larger eligible population. MetroPlus also should seek to retain more of its members' utilization at HHC facilities, primarily by attracting patients to in-house providers because of their high quality relative to others and their proximity to member residences.

The third challenge is adequately financing care for the uninsured. The federal Affordable Care Act increased the insured population and decreased the cost of uncompensated care for HHC and other hospitals. Nonetheless, an estimated 700,000 New Yorkers will still be left uninsured. Given its mission, HHC will likely continue to play a major role in caring for the uninsured. The fiscal strategies to support this mission include retaining current sources and promoting an equitable division of responsibility for the uninsured between HHC and the voluntary sector. HHC should advocate for available state tax exemptions and funding sources conditioned on greater participation by voluntary hospitals in caring for the uninsured.

The fourth challenge is creating a rational financial relationship with the City of New York. HHC and municipal leaders should develop more rational and stable guidelines for funding HHC. The new approach should improve HHC's financial stability, its ability to engage in long-term financial planning, and its incentives for cost-effective service delivery. Possibilities include capitated payments for the uninsured that reflect the cost of providing care and incentive payments for implementing state-of-the-art care management models.

HHC is an enormously important resource for New York, and its financial sustainability is crucial. If it is to succeed in the rapidly changing healthcare landscape, its operations must be modernized. Restructuring its services to stabilize its financial condition should be a top priority for state and local leaders.