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Report on the Fiscal 2017 Executive Budget New York City Health + Hospitals May 10, 2016

Ellen Eng, Senior Legislative Financial Analyst
Crielhien Francisco, Unit Head

Finance Division

Latonia McKinney, Director
Regina Poreda Ryan, Deputy Director
Nathan Toth, Deputy Director
Paul Scimone, Deputy Director
Emre Edev, Assistant Director

Executive Budget Summary

- **Expense Budget.** The New York City Health and Hospitals (NYC H+H or Health and Hospitals) Fiscal 2017 Executive Budget totals \$7.8 billion, of which \$735.4 million or 9.3 percent, is the operating subsidy provided by the City.
- **Projected Operating Deficit.** The Fiscal 2017 Executive Budget shows a projected operating deficit of \$785.2 million for Fiscal 2017, growing to \$1.8 billion by Fiscal 2020.
- **Closing Cash Balance.** As a result of changes in the Executive Budget, the NYC H+H anticipates a Fiscal 2017 closing cash balance of \$112.8 million.
- **Health and Hospital Transformation Plan.** The four part transformation plan includes \$661 million in revenue generating initiatives and \$118 million in expense reducing initiatives totaling \$779 million for Fiscal 2017.
 - In Fiscal 2020, this grows to \$1.1 billion in revenue generation and \$698 million in expense reduction totaling \$1.8 billion.
- **Executive Budget Changes.**
 - \$160 million increase in City funds for a lump sum subsidy to NYC H+H's Fiscal 2016 Budget.
 - \$7.3 million in City funds to the Fiscal 2017 budget for correctional health services including an expansion of pre-arraignment services in Manhattan, expansion of PACE units, and expansion of Hepatitis C treatment.
- **Capital Budget.** The Fiscal 2017 Executive Capital Commitment Plan includes \$2.8 billion in Fiscal 2016-2020 for NYC H+H:
 - \$106.7 million for the expansion of primary health clinics;
 - \$1.8 billion in FEMA funds; and
 - \$55 million for EMR upgrades.

NYC Health + Hospitals Overview

This report presents a review of NYC H+H's Fiscal 2017 Executive Budget. The section below presents an overview of Health and Hospitals' budget and how it has changed during the course of Fiscal 2016, followed by a review of the significant budget actions introduced in the Fiscal 2017 Executive Budget. Major issues related to the agency's budget are then discussed. Analysis and highlights of the agency's Capital Commitment Plan for the Fiscal 2017 Executive Budget follows the discussion of the expense budget. Appendix 1 reports the changes made to the Fiscal 2016 and Fiscal 2017 Budgets since Adoption of the Fiscal 2016 Budget. For additional information on the agency's budget and its various programs, please refer to the Fiscal 2017 Preliminary Budget Report for the NYC H+H at: http://council.nyc.gov/html/budget/fy17_documents.shtml

NYC Health + Hospitals					
FY 2017 Executive Financial Plan					
<i>Cash Basis</i>					
(\$ in millions)					
	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020
OPERATING REVENUES					
<u>Third Party Revenue</u>					
Medicaid	\$2,183	\$2,118	\$2,153	\$2,180	\$2,210
Medicare	\$988	\$981	\$988	\$988	\$988
Other Managed Care	\$350	\$353	\$353	\$353	\$353
Supplemental Medicaid	\$2,233	\$2,292	\$1,714	\$1,422	\$1,430
<i>Disproportionate Share Hospital (DSH)</i>	\$1,366	\$1,173	\$1,119	\$930	\$952
<i>Other Supplemental Payments</i>	\$867	\$1,119	\$596	\$492	\$477
Subtotal: Third Party Revenue	\$5,754	\$5,744	\$5,208	\$4,943	\$4,980
<u>Other Revenue</u>					
City Services	\$894	\$735	\$806	\$827	\$830
Grants and Other	\$531	\$611	\$497	\$497	\$498
Subtotal: Other Revenue	\$1,425	\$1,347	\$1,303	\$1,324	\$1,328
TOTAL OPERATING REVENUES	\$7,179	\$7,090	\$6,511	\$6,267	\$6,308
OPERATING EXPENSES					
Personal Services	\$2,782	\$2,955	\$2,942	\$2,976	\$3,006
Fringe Benefits	\$1,488	\$1,436	\$1,474	\$1,543	\$1,633
Affiliations	\$1,063	\$1,096	\$1,105	\$1,120	\$1,126
Other Than Personal Services	\$2,425	\$2,388	\$2,290	\$2,277	\$2,309
TOTAL OPERATING EXPENSES	\$7,758	\$7,876	\$7,810	\$7,915	\$8,073
TOTAL OPERATING INCOME/(LOSS)	(\$579)	(\$785)	(\$1,299)	(\$1,649)	(\$1,765)

The NYC H+H's financial plan (as shown above) is operated on a cash basis. Cash basis accounting allows for the recognition of income at the time it is actually received. This means that invoiced income is not counted as an asset until payment for the invoice is actually in hand. The same approach is applied to debits, in that any expenses incurred are not posted until they are paid. The NYC H+H prefers this method because it provides a real-time assessment of their current cash flow.

The NYC H+H's has the authority to develop a consolidated annual expense and revenue budget, which is then approved by the NYC H+H's Board of Directors and subsequently by the City as a result of a financial agreement reached with the City in 1992. The agreement provides

for payment of the City's tax-levy portion to the NYC H+H's in a lump sum, thereby indemnifying NYC H+H against changes in the City's budget during a fiscal year. The lump sum is shown in the "Operating Revenue" section of the table as "City Services." The Fiscal 2017 Executive Budget includes \$735 million for NYC H+H; NYC H+H's entire Financial Plan is not part of the City's budget. For Health and Hospitals, the Fiscal 2017 Executive Budget shows operating expenses totaling \$7.9 billion and operating revenue totaling \$7.1 billion in Fiscal 2017.

Projected Operating Deficit

According to its Fiscal 2017 Executive Financial Plan, the operating loss for Fiscal 2016 is expected to reach \$579 million. While NYC H+H anticipates a Fiscal 2017 operating loss of \$785 million. Based on its current conditions, this deficit will grow to \$1.8 billion by Fiscal 2020. The substantial operating deficit is a function of the Health and Hospital's declining revenue versus its growing needs. Moreover, as a result of changes in the Executive Budget, the NYC H+H anticipates a Fiscal 2017 closing cash balance of \$113 million, growing to \$174 million in Fiscal 2020.

Transformation Plan

	Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020
Revenue-Generating Initiatives					
Medicaid Waiver Programs	\$32	\$449	\$520	\$520	\$400
Federal and State Charity Care	\$0	\$18	\$181	\$369	\$361
Health Insurance Initiatives	\$123	\$194	\$202	\$210	\$241
Development Opportunities	\$0	\$0	\$0	\$0	\$100
Subtotal: Revenue-Generating Initiatives	\$155	\$661	\$903	\$1,099	\$1,101
Expense-Reducing Initiatives					
Supply Chain and Care Management Initiatives	\$50	\$63	\$87	\$121	\$154
Restructuring and Personnel Initiatives	(\$50)	\$55	\$317	\$448	\$544
Subtotal: Expense-Reducing Initiatives	\$0	\$118	\$404	\$569	\$698
TOTAL: TRANSFORMATION PLAN	\$155	\$779	\$1,307	\$1,668	\$1,799
INCOME/(LOSS) AFTER GAP-CLOSING INITIATIVES	(\$424)	(\$6)	\$7	\$20	\$34
OPENING CASH BALANCE	\$543	\$119	\$113	\$120	\$140
CLOSING CASH BALANCE	\$119	\$113	\$120	\$140	\$174

The table above reflects NYC H+H and the Administration's Fiscal 2016 – Fiscal 2020 Transformation Plan. The Fiscal 2017 Executive Plan anticipates its four revenue initiatives to generate \$661 million in Fiscal 2017, growing to \$1.1 billion in Fiscal 2020. In Fiscal 2017, NYC H+H projects that the Medicaid Waiver program will generate \$449 million and the health insurance initiatives will generate \$194 million. These two components represent 97.3 percent of H+H's Fiscal 2017 transformation plan projections.

In comparison, the expense reducing initiatives for Fiscal 2017 total \$118 million. The Fiscal 2017 Transformation Plan totals \$779 million, of which expense reducing strategies are 15 percent of total. By Fiscal 2020, the revenue generating initiatives are projected to grow to \$1.1 billion and the expense reducing initiatives are projected to grow to \$698 million. On average, expense reducing initiatives are approximately 30 percent of the transformation plan with revenue generating initiatives representing 70 percent.

New in the Executive Budget

The following are major financial plan actions for Fiscal 2017 included in the Executive Plan:

- **Health + Hospitals Subsidy.** The Fiscal 2017 Executive Plan includes \$160 million in Fiscal 2016. This City-funding provides a lump sum subsidy to stabilize NYC H+H's Fiscal 2016 financial gap. The debt service costs starts at \$180 million in Fiscal 2017 and grows to \$200 million by Fiscal 2020.
- **Correctional Health Enhancements.** The Fiscal 2017 Executive Plan proposes additional funding for correctional health services totaling \$7.3 million in Fiscal 2017, \$11.8 million in Fiscal 2018 and \$14.8 million in Fiscal 2019.

- **Expansion of Program to Accelerate Clinical Effectiveness (PACE) units.** The Fiscal 2017 Executive Plan includes \$2.1 million in Fiscal 2017, \$4.1 million in Fiscal 2018, and \$7.1 million in Fiscal 2019 for the expansion of enhanced mental observation units, also known as Program to Accelerate Clinical Effectiveness (PACE), and the establishment of PACE-Lite/stabilization units at Rikers Island. PACE units provide a high level of clinical care for mentally ill inmates.

This City funded expansion adds an additional eight units over four fiscal years to serve approximately 240 additional inmates after all eight units are enhanced. The City anticipates having a total of 20 mental observation units. Prior to the new expansion, Rikers Island had enhanced four of the 20 PACE units.

This expansion would bring the total number of PACE units to 12, with funding to establish two PACE Lite/stabilization unit per year in Fiscal 2017 and Fiscal 2018. In Fiscal 2019 and Fiscal 2020, the expansion will support one PACE and one PACE Lite/stabilization unit. The Department of Correction has a corresponding headcount and funding increase in the Fiscal 2017 Executive Plan.

- **Expansion of Pre-Arrest Screening Unit.** The Fiscal 2017 Executive Plan baselines \$2.7 million in Fiscal 2017 and in the outyears for the expansion of the pre-arrest screening unit. Piloted at one shift in Manhattan, this City-funded initiative will expand pre-arrest screening to all shifts in Manhattan. The pilot, originally funded by the Mayor's Behavioral Health and Criminal Justice Taskforce, screened over 4,500 patients from May to November 2015. The expansion will allow nurse practitioners, rather than Emergency Medical Technicians, to conduct pre-arrest health screenings, which include the ability to diagnose, treat, and prescribe medications to patients.
- **Hepatitis C Treatment Expansion.** The Fiscal 2017 Executive Plan includes \$2.5 million in Fiscal 2017 and baseline funding of \$5 million in Fiscal 2018 and in the outyears for the expansion of the Hepatitis C Treatment, Sofosbuvir. Sofosbuvir, a 90-day regimen, is known to cure Hepatitis C, a disease which has seen an increase in prevalence in the City's jail system. The expansion will allow correctional health providers to continue providing this treatment and initiate this treatment for inmates while incarcerated.

NYC Health + Hospitals Capital Program

Capital Commitment Plan

The Fiscal 2017 Executive Budget Capital Commitment Plan includes \$2.8 billion in Fiscal 2016-2020 for the New York City Health + Hospitals (including City and Non-City funds). This represents approximately 4.2 percent of the City's total \$67.1 billion Executive Plan for Fiscal 2016-2020. The agency's Executive Commitment Plan for Fiscal 2016-2020 is 32 percent greater than the \$2.1 billion scheduled in the Preliminary Commitment Plan, an increase of \$685.1 million.

The majority of capital projects span multiple fiscal years, and it is, therefore common practice for an agency to roll unspent capital funds into future fiscal years. In Fiscal year 2015, the New York City Health + Hospitals committed \$143.7 million or 29.1 percent of its annual capital plan. Therefore, it is assumed that a significant portion of the agency's Fiscal 2016 Capital Plan will be rolled into Fiscal 2017, increasing the size of the Fiscal 2017-2020 Capital Plan as reflected in the chart below.

NYC H+H's 2016-2020 Capital Commitment Plan						
<i>Dollars in Thousands</i>						
	2016	2017	2018	2019	2020	Total
Preliminary Plan	\$491,521	\$488,081	\$425,253	\$413,462	\$319,143	\$2,137,460
Executive Plan	413,991	705,680	574,985	479,786	648,165	\$2,822,607
Change	(77,530)	217,599	149,732	66,324	329,022	\$685,147
Percentage Change	(16%)	45%	35%	16%	103%	32%

Source: OMB Fiscal 2017 Executive Capital Commitment Plan

Executive Budget Highlights

The NYC H+H's capital programs have focused on energy efficiency at their facilities, expansion of outpatient services, improvements to digital infrastructure and rehabilitation and renovation of facilities damaged by Hurricane Sandy. NYC H+H's Fiscal 2016-2020 Executive Capital Commitment Plan reduces Fiscal 2016 capital commitments by \$77.5 million or 16 percent. Capital commitments for Fiscal 2017 increased by \$217.6 million or 45 percent. Below are several capital projects in NYC H+H's Fiscal 2016-2020 Capital Commitment Plan.

- **Primary Health Clinics.** NYC H+H includes planned commitments of \$106.7 million in the Executive Capital Commitment Plan for the development and improvement of primary health clinics. The commitment plan includes planned commitments of \$5.9 million in Fiscal 2016 and \$25.7 million in Fiscal 2017.
- **ICIS Program – EMR Upgrade.** The Executive Capital Commitment Plan includes planned commitments of \$55.4 million for the Integrated Clinical Information System (ICIS) Program. The ICIS program is a multi-year initiative that recently introduced a fully functional, fully integrated electronic medical record (EMR) throughout the public hospital network. The rollout for this project began in April and implementation will be phased in and completed by 2018. The capital commitment plan shows \$47.3 million in Fiscal 2016 and \$8 million in Fiscal 2017 for this project.
- **Mental Health Capacity Expansion.** The Executive Capital Commitment Plan commits a total of \$16 million in Fiscal 2017 for the expansion of NYC H+H's mental health capacity.

- **Correctional Health Services IT.** The Executive Capital Commitment Plan commits a total of \$8.5 million to improve digital infrastructure to allow for TeleHealth capacity at the City's jails. The plan commits \$5 million in Fiscal 2016 and \$3.5 million in Fiscal 2017. TeleHealth is part of NYC H+H and Department of Correction's 2020 proposal for improving and addressing correctional health needs at the City's jails. TeleHealth will allow mini clinics on Rikers Island to be equipped to telecommunicate with offsite physicians.

Appendix: NYC H+H's Fiscal 2017 Budget Actions since Fiscal 2016 Adoption

<i>Dollars in Thousands</i>	FY 2016			FY 2017		
	City	Non-City	Total	City	Non-City	Total
NYC H+H's Budget as of the Adopted 2016 Budget	\$325,047	\$52,953	\$378,000	\$399,706	\$51,088	\$450,794
New Needs - Prelim. 2017						
Correctional Health: Baseline Funding	\$6,871	\$0	\$6,871	\$2,408	\$0	\$2,408
Correctional Health: Personnel Transfer	7,067	0	7,067	11,627	0	11,627
Expansion of Inspector General Office	4,749	0	4,749	9,497	0	9,497
Subtotal, New Needs	\$18,687	\$0	\$18,687	\$23,531	\$0	\$23,531
Other Adjustments - Prelim. 2017						
Collective Bargaining (I/C) OSA	\$14	\$0	\$14	16	\$0	\$16
Collective Bargaining Transfer	466	0	466	557	0	557
Collective Bargaining (I/C) Transfer	47,840	0	47,840	48,474	0	48,474
Intra City - Winston Temps	0	1,705	1,705	0	0	0
Intra City - Cure Violence	0	4,925	4,925	0	0	0
Intra City - Correctional Health	0	3,460	3,460	0	0	0
Intra City - Immunization	0	455	455	0	0	0
Intra City - STF Jacobi Hospital	0	35	35	0	0	0
Intra City - Harlem Hospital	0	469	469	0	0	0
Member Item Reallocation	1,081	0	1,081	0	0	0
Office of Mental Health State Aid	0	271	271	0	271	271
plANYC Energy Analyst - HHC	0	75	75	0	0	0
plANYC Program - HHC	0	736	736	0	0	0
City Council Member Item	56	0	56	0	0	0
Energy Manager	0	95	95	0	0	0
Medicaid Funding Transfer to HHC	204,000	0	204,000	204,000	0	204,000
Intra City - Pharmaceutical	0	230	230	0	0	0
Intra City - Bellevue Hospital	0	20	20	0	0	0
Intra City - CHS Grants	0	749	749	0	0	0
Intra City - HIV Testing Program	0	3,125	3,125	0	0	0
Intra City - In Depth Respiratory	0	40	40	0	0	0
Intra City - Naxolene	0	500	500	0	0	0
Intra City - TB Medications	0	234	234	0	0	0
State Aid Letter	0	208	208	0	208	208
Federal Funding Adjustments	0	1,763	1,763	0	0	0
Intra-City Funding Adjustments	0	1,452	1,452	0	0	0
Subtotal, Other Adjustments	\$253,457	\$20,547	\$274,004	\$253,047	\$479	\$253,526
TOTAL, All Changes Prelim. 2017	\$272,144	\$20,547	\$292,690	\$276,579	\$479	\$277,058
NYC H+H 's Budget as of the Preliminary 2017 Budget	\$597,191	\$73,500	\$670,690	\$676,285	\$51,567	\$727,852

<i>Dollars in Thousands</i>	FY 2016			FY 2017		
	City	Non-City	Total	City	Non-City	Total
NYC H+H 's Budget as of the Preliminary 2017 Budget	\$597,191	\$73,500	\$670,690	\$676,285	\$51,567	\$727,852
New Needs - Exec. 2017						
Correctional Health: Expansion of PACE	\$0	\$0	\$0	\$2,067	\$0	\$2,067
Correctional Health: Hepatitis C Treatment	0	0	0	2,500	0	2,500
Correctional Health: Pre-arraignment Screening Unit	0	0	0	2,701	0	2,701
Health + Hospital Subsidy	160,000	0	160,000	0	0	0
Subtotal, New Needs	\$160,000	\$0	\$160,000	\$7,269	\$0	\$7,269
Other Adjustments - Exec. 2017						
2457HHCFeb16	\$0	\$7	\$7	\$0	\$0	\$0
Article 6 Adjustment	(2,578)	0	(2,578)	0	0	0
City Council Reallocations	(7)	0	(7)	0	0	0
CB Transfer	349	0	349	1,374	0	1,374
CB Transfer (Lump Sum)	35,178	0	35,178	0	0	0
ExCEL Supplemental Agreement	0	229	229	0	0	0
FY16BHTHHC	0	420	420	0	420	420
H+HFEMAP642	0	329	329	0	0	0
HHCDAFNIC	0	16	16	0	0	0
HHC FEMAPW3887	0	20	20	0	0	0
HHC FEMAPW34224 2nd Drawdown	0	668	668	0	0	0
IC w/HHC -Harlem Hospital - NFP	0	89	89	0	0	0
IC w/HHC - Pharmaceutical	0	992	992	0	0	0
IC w/ HHC - Winston Temps	0	696	696	0	0	0
IC w/HHC CHS Grants	0	2,068	2,068	0	0	0
IC w/ HHC- Medications	0	525	525	0	0	0
IC w/HHC Prophylaxis	0	2	2	0	0	0
IC w/HHC Harlem Hospital NFP	0	759	759	0	0	0
IC w/ HHC for COP	0	170	170	0	0	0
OASAS State Aid Letter 3-9-16	0	317	317	0	317	317
Pre-arraignment Reestimate	0	0	0	(2,029)	0	(2,029)
YMI/H+H Cure Violence Reestimate	0	0	0	(710)	0	(710)
OMH State Aid Letter 1-19-16	0	797	797	0	820	820
IC w/ HHC - Correctional Health	0	22,048	22,048	0	0	0
Subtotal, Other Adjustments	\$32,941	\$30,152	\$63,093	(\$1,365)	\$1,557	\$192
TOTAL, All Changes - Exec. 2017	\$192,941	\$30,152	\$223,093	\$5,903	\$1,557	\$7,460
NYC H+H Budget as of the Fiscal 2017 Executive Plan	\$790,132	\$103,652	\$893,784	\$682,188	\$53,124	\$735,312