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Report to the Committee on Finance and the Committee on Health on the Fiscal 2018 Executive Budget for New York City Health + Hospitals May 9, 2017

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Executive Budget Summary

- **Expense Budget Overview.** The Fiscal 2018 Executive Budget for New York City Health and Hospitals (H+H) totals \$7.6 billion, including \$829 million, or 11 percent, in City subsidies.
- **Projected Operating Income/Deficit.** The Fiscal 2018 Executive Budget projects an operating income of \$64 million for Fiscal 2018 and an operating deficit of \$5 million in Fiscal 2019—building to a \$60 million deficit in Fiscal 2020.
- **Closing Cash Balance.** As a result of changes in the Executive Budget, H+H anticipates a Fiscal 2018 closing cash balance of \$250 million.
- **Transformation Plan.** The H+H transformation plan includes \$820 million in revenue-generating initiatives and \$387 million in expense-reducing initiatives, resulting in \$1.2 billion in Fiscal 2018.
 - In Fiscal 2020, revenue generation increases to \$1.1 billion and expense reduction increases to \$748 million, resulting in \$1.9 billion for the fiscal year.
- **Executive Budget Changes**
 - New needs in H+H's Fiscal 2018 Executive Budget support HealingNYC, a comprehensive effort to reduce opioid overdose deaths by 35 percent over the next five years. The funding totals \$1.8 million in Fiscal 2017, \$9.9 million in Fiscal 2018, \$7 million in Fiscal 2019, and \$5.6 million in Fiscal 2020. Fiscal 2018 funding includes:
 - \$5 million to Correctional Health Services to increase access to prevention and treatment, including \$828,000 for naloxone kits; and
 - \$4.8 million to fund addiction medicine consult teams.
 - Other adjustments total \$4.9 million in Fiscal 2017 and \$32.2 million in Fiscal 2018, comprised largely of intercity funding.
- **Capital Budget.** The Fiscal 2018 Executive Capital Commitment Plan includes approximately \$3 billion in Fiscal 2017-2021 for H+H, including \$1.4 billion to fund Hurricane Sandy-related reconstruction.

NYC Health + Hospitals Overview

This report reviews New York City Health and Hospitals' Fiscal 2018 Executive Budget. The first section identifies changes to the agency's budget during the course of Fiscal 2017. The next section reviews important budget actions introduced in the City's Fiscal 2018 Executive Budget. The report then provides analyses and highlights of H+H's Capital Commitment Plan for the Fiscal 2018 Executive Budget. Appendix 1 identifies changes to the Fiscal 2017 and Fiscal 2018 Budgets since the Fiscal 2017 Adopted Budget. For additional information on the agency's budget, please refer to the Fiscal 2018 Preliminary Budget Report for H+H at:

<http://council.nyc.gov/budget/wp-content/uploads/sites/54/2017/03/819-HHC-2.pdf>

NYC Health + Hospitals Fiscal 2018 Executive Financial Plan Cash Basis (\$ in millions)					
	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
OPERATING REVENUES					
<u>Third Party Revenue</u>					
Medicaid	\$1,971	\$2,010	\$2,079	\$2,146	\$2,176
Medicare	\$1,054	\$1,061	\$1,082	\$1,101	\$1,108
Other Managed Care	\$355	\$354	\$354	\$354	\$354
Supplemental Medicaid	\$2,620	\$1,714	\$1,422	\$1,430	\$1,381
Disproportionate Share Hospital (DSH)	\$1,275	\$1,119	\$930	\$952	\$958
Other Supplemental Payments	\$1,344	\$596	\$492	\$477	\$423
Subtotal: Third Party Revenue	\$5,999	\$5,138	\$4,936	\$5,030	\$5,019
<u>Other Revenue</u>					
City Services	\$423	\$829	\$849	\$852	\$853
Grants and Other	\$611	\$500	\$500	\$501	\$501
Subtotal: Other Revenue	\$1,034	\$1,329	\$1,349	\$1,353	\$1,354
TOTAL OPERATING REVENUES	\$7,785	\$7,287	\$7,423	\$7,523	\$7,510
OPERATING EXPENSES					
Personal Services	\$2,980	\$2,951	\$2,986	\$3,015	\$3,047
Fringe Benefits	\$1,509	\$1,475	\$1,543	\$1,634	\$1,672
Affiliations	\$1,096	\$1,105	\$1,120	\$1,126	\$1,196
Other Than Personal Services	\$2,613	\$2,078	\$2,398	\$2,556	\$2,382
TOTAL OPERATING EXPENSES	\$8,197	\$7,609	\$8,046	\$8,330	\$8,297
TOTAL OPERATING INCOME/(LOSS)	(\$294)	\$64	(\$5)	(\$60)	(\$38)

H+H's Accounting Method

H+H operates on a cash basis, recognizing revenues and reporting expenses as they occur, rather than employing the financial projections common to other City agencies. H+H generally prefers the cash basis accounting method for its financial plan (as shown above) because it allows the health system to recognize income when H+H actually receives the money. H+H, therefore, does not recognize invoiced income as an asset until the payment is in hand. The system applies the

same approach to debts, only recognizing incurred expenses once they are paid. This accounting method provides a real-time assessment of the agency's current cash flow.

A financial agreement reached with the City in 1992 authorizes H+H to develop—and the H+H Board of Directors and the City to approve—a consolidated annual expense and revenue budget. Per the agreement, H+H may develop non-city funding sources for new programs and retain any surpluses during a fiscal year. The agreement also provides for a lump sum payment of City Tax-Levy (CTL) to H+H, indemnifying the system against changes to the City's budget during the course of a fiscal year. The lump sum is shown in the "Operating Revenue" section of the table as "City Services." The Fiscal 2018 Executive Budget includes \$829 million for H+H. The City's budget does not include H+H's annual expense and revenue budget; it only includes the City's lump sum payment to H+H. The City's Capital Budget, however, includes all of H+H's capital projects.

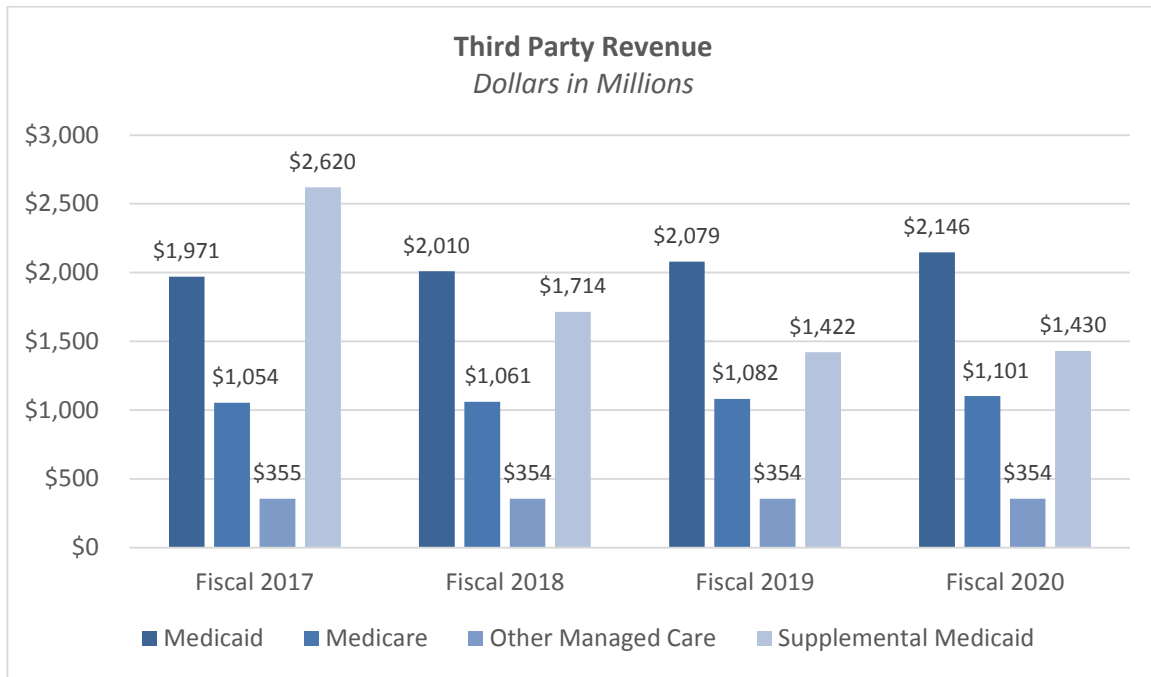
Projected Operating Income/Deficit (Fiscal 2017 through Fiscal 2021)

According to its Fiscal 2018 Executive Financial Plan, H+H anticipates a Fiscal 2017 operating loss of \$294 million and a Fiscal 2018 operating income of \$64 million. Based on its current fiscal conditions, H+H anticipates operating deficits of \$5 million in Fiscal 2019, \$60 million in Fiscal 2020, and \$38 million in Fiscal 2021. The baseline budget forecast assumes H+H will continue to receive City subsidies and grants totaling approximately \$1.3 billion annually for each of the forecast years; however, given the declining patient care revenue and increasing operating expenses, projections still indicate deficits. As a result of changes in the Executive Budget, H+H anticipates a Fiscal 2018 closing cash balance of \$250 million, falling to \$148 million by Fiscal 2021.

H+H continues to implement corrective actions intended to mitigate the deficit, including cost containment initiatives and organizational restructuring. These revenue-generating and expense-reducing initiatives are described in the NYC Health + Hospitals Transformation Plan section of the report on page six.

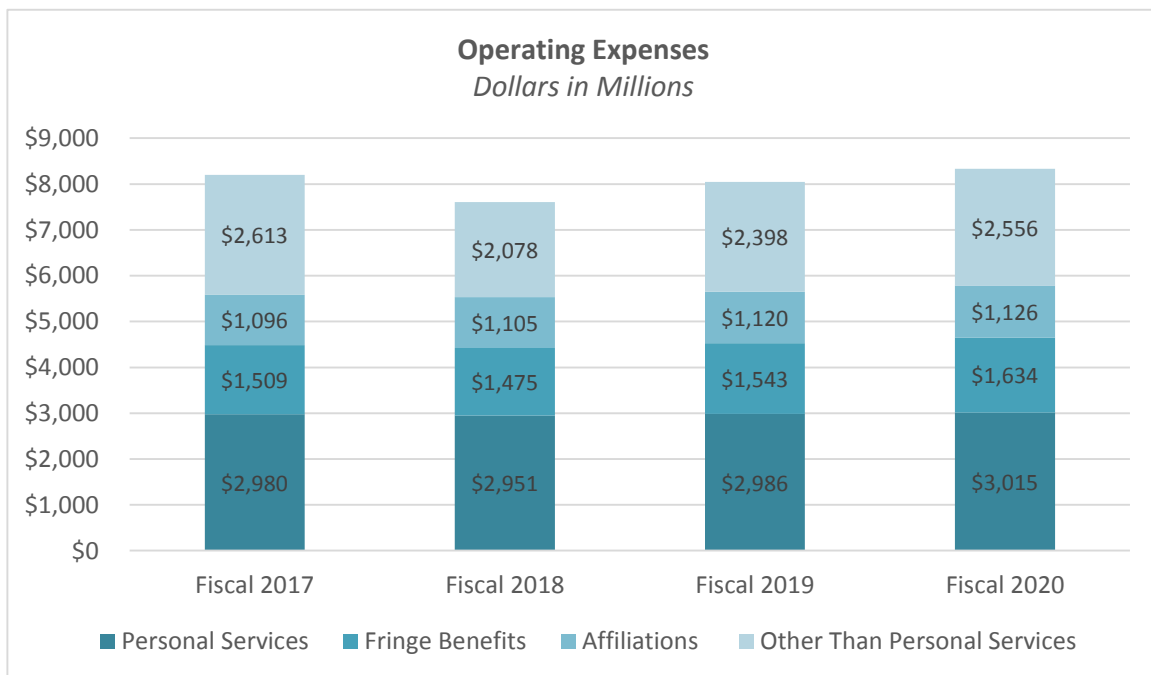
Revenue Highlights

In Fiscal 2018, H+H projects \$7.3 billion in total operating revenue, a decrease of \$498 million, or six percent, when compared to Fiscal 2017 projections. The change is attributable to a decrease in third party revenue, namely the \$156 million decline in supplemental Medicaid payments, a 12 percent decrease. Funding attributed to City Services nearly doubles between Fiscal 2017 and Fiscal 2018, from \$423 million to \$829 million, an increase largely attributable to \$267 million in City subsidies in Fiscal 2018.



Expense Highlights

In Fiscal 2018, H+H projects \$7.6 billion in total operating expenses, a decrease of \$588 million, or seven percent, when compared to Fiscal 2017 projections. The largest decrease in operating expenses occurs in Other Than Personal Services (OTPS) spending. H+H projects a \$535 million (20 percent) decrease in OTPS spending from Fiscal 2017 to Fiscal 2018, from \$2.6 billion to \$2.1 billion. Projections indicate slight decreases in expenses related to Personal Services (PS) and Fringe Benefits, indicating one percent and two percent declines, respectively, between Fiscal 2017 and Fiscal 2018.



New York City Health + Hospitals Transformation Plan

Transformation Plan Cash Basis (\$ in millions)					
	Projected 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021
<u>Revenue-Generating Initiatives</u>					
Medicaid Waiver Programs	\$546	\$483	\$483	\$363	\$361
Federal and State Charity Care	\$0	\$85	\$369	\$361	\$361
Health Insurance Initiatives	\$206	\$252	\$285	\$316	\$316
Development Opportunities	\$0	\$0	\$0	\$100	\$100
Subtotal: Revenue-Generating Initiatives	\$752	\$820	\$1,137	\$1,139	\$1,138
<u>Expense-Reducing Initiatives</u>					
Supply Chain and Care Management Initiatives	\$63	\$137	\$171	\$204	\$204
Restructuring and Personnel Initiatives	\$55	\$250	\$448	\$544	\$544
Subtotal: Expense-Reducing Initiatives	\$118	\$387	\$619	\$748	\$748
TOTAL: TRANSFORMATION PLAN	\$870	\$1,207	\$1,756	\$1,887	\$1,886
INCOME AFTER GAP-CLOSING INITIATIVES	\$576	\$1,271	\$1,751	\$1,827	\$1,848
OPENING CASH BALANCE	\$480	\$186	\$250	\$246	\$186
CLOSING CASH BALANCE	\$186	\$250	\$246	\$186	\$148

The above table outlines H+H's Fiscal 2017 – Fiscal 2021 Transformation Plan. The Fiscal 2018 Executive Plan projects \$820 million in Fiscal 2018 from revenue-generating initiatives, increasing to more than \$1.1 billion in Fiscal 2019, 2020, and 2021. In Fiscal 2018, H+H projects \$483 million in revenue from Medicaid Waiver Programs (59 percent), \$252 million in revenue from Health Insurance Initiatives (31 percent), and \$85 million in revenue from Federal and State Charity Care (10 percent). In Fiscal 2020 and Fiscal 2021, H+H expects \$100 million from Development Opportunities. Revenue-generating initiatives comprise approximately 78 percent of the Plan's projections in Fiscal 2018. Notably, two revenue-generating initiatives—Medicaid Waiver Programs and Federal and State Charity Care—require State and federal action.

The Fiscal 2018 Executive Plan projects \$387 million in Fiscal 2018 from expense-reducing initiatives, increasing to \$619 million in Fiscal 2019 and to \$748 million in Fiscal 2020 and in Fiscal 2021. In Fiscal 2018, H+H projects \$137 million from Supply Chain and Care Management Initiatives (35 percent) and \$250 million from Restructuring and Personnel Initiatives (65 percent). Anticipated savings from restructuring and personnel efforts increase substantially by Fiscal 2020, to \$544 million.

New in the Executive Budget

The Fiscal 2018 Executive Budget allocates funding to NYC Health + Hospitals for HealingNYC, a comprehensive, interagency effort to reduce opioid overdose deaths by 35 percent over the next five years. The funding supports the H+H system as well as Correctional Health Services (CHS)—a division of H+H. The CHS sector provides emergency medical care and inpatient health services to inmates in New York City correctional facilities.

- **Correctional Health Services (CHS).** The Budget allocates \$1.8 million to CHS in Fiscal 2017, including \$326,000 to expand access to naloxone, and \$1.5 million to expand access to treatment, including medications such as methadone and buprenorphine. CHS will also improve discharge planning services and increase outpatient referrals to ensure inmates with substance use disorders maintain access to medication-assisted treatment after exiting the criminal justice system. The naloxone funding increases to \$828,000 in Fiscal 2018, and the treatment funding increases to \$4.2 million, for a total Fiscal 2018 allocation of \$5 million to CHS for HealingNYC.
- **Addiction Treatment.** The Plan allocates \$4.8 million in Fiscal 2018 and \$2 million in Fiscal 2019 to H+H to design and implement Addiction Medicine Consult Teams (AMCTs) at four H+H facilities: Coney Island, Metropolitan, Lincoln, and Elmhurst. The AMCTs will engage with H+H patients who present with opioid use disorders in order to discuss addiction treatment and care management. Specifically, the Teams will promote buprenorphine induction, the first phase of maintenance treatment, in H+H emergency departments.

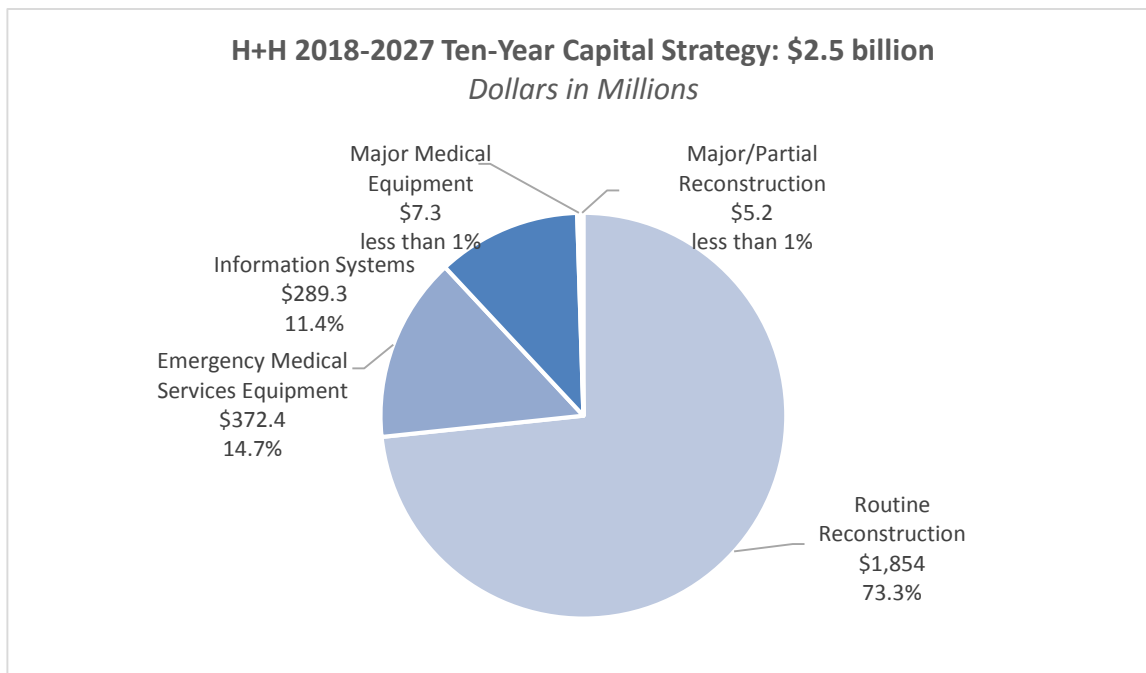
NYC Health + Hospitals Capital Strategy and Plan

Ten-Year Capital Strategy

The City's Ten-Year Capital Strategy totals \$95.8 billion (all funds), an increase of \$6.2 billion, or seven percent, from the Preliminary Ten-Year Capital Strategy total of \$89.6 billion. The Ten-Year Capital Strategy demonstrates the agency's long-term capital spending goals, and the Capital Commitment Plan outlines plans for projects funded in the capital budget.

New York City Health and Hospitals' Ten-Year Capital Strategy for Fiscal 2018-2027 totals approximately \$2.5 billion. City funding totals \$1.5 billion, or 60 percent, of the Ten-Year Capital Strategy, and federal funding totals \$1 billion, or 40 percent. H+H's Ten-Year Capital Strategy includes \$1.9 billion for Routine Reconstruction; \$372.4 for Emergency Medical Services Equipment; \$289.3 for Information Technology Systems; \$7.3 million for Major Medical Equipment; and \$5.2 million for Major or Partial Hospital Reconstruction.

H+H operates 11 acute care hospitals, six Diagnostic and Treatment Centers, four long-term care facilities, a certified home healthcare agency, and more than 70 community health clinics throughout the five boroughs. A combination of City General Obligation bonds and Transitional Finance Authority (TFA) bonds fund H+H's capital plan.



Routine Reconstruction. The Ten-Year Capital Strategy includes \$1 billion in federal funding associated with Hurricane Sandy storm damage, in addition to \$70.7 million for reconstruction and mitigation work. Investments in primary care expansion in underserved areas total \$100.6 million.

Emergency Medical Services Equipment. The Ten-Year Capital Strategy provides \$372.4 million for the purchase of FDNY/EMS ambulances.

Information Technology Systems. The Ten-Year Capital Strategy includes \$147.4 million for the replacement of the revenue cycle management system and \$124.9 million for the replacement of the Electronic Medical Record system.

Major Medical Equipment. The Ten-Year Capital Strategy provides \$7.3 million for a variety of needed medical equipment purchases.

Major or Partial Hospital Reconstruction. The Ten-Year Capital Strategy includes \$1.1 million to complete an Ambulatory Care Pavilion at Queens Hospital Center.

H+H Ten-Year Capital Strategy by Category

H+H					
<i>Dollars in Thousands</i>					
	2018	2019	2020	2021	2022
<u>Routine Reconstruction</u>					
City	\$286,735	\$176,919	\$148,858	\$66,653	\$35,000
Federal	315,159	361,306	208,811	97,753	32,094
<u>EMS Equipment</u>					
City	\$26,258	\$24,030	\$30,163	\$33,075	\$59,220
Federal	734	0	0	0	0
<u>IT Systems</u>					
City	\$152,829	\$96,274	\$33,429	\$6,767	\$0
<u>Major Medical Equipment</u>					
City	\$3,659	\$3,649	\$0	\$0	\$0
<u>Major/Partial Reconstruction</u>					
City	\$5,163	\$0	\$0	\$0	\$0
Project by Source					
City	\$474,644	\$300,872	\$212,450	\$106,495	\$94,220
Federal	315,377	361,306	208,811	97,753	32,094
TOTAL	\$789,803	\$662,178	\$421,261	\$204,248	\$126,314

H+H					
<i>Dollars in Thousands</i>					
	2023	2024	2025	2026	2027
<u>Routine Reconstruction</u>					
City	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Federal	0	0	0	0	0
<u>EMS Equipment</u>					
City	\$29,083	\$27,856	\$34,967	\$38,339	\$68,652
Federal	0	0	0	0	0
<u>IT Systems</u>					
City	\$0	\$0	\$0	\$0	\$0
<u>Major Medical Equipment</u>					
City	\$0	\$0	\$0	\$0	\$0
<u>Major/Partial Reconstruction</u>					
City	\$0	\$0	\$0	\$0	\$0
Project by Source					
City	\$54,083	\$52,856	\$59,967	\$63,339	\$93,652
Federal	0	0	0	0	0
TOTAL	\$54,083	\$52,856	\$59,967	\$63,339	\$93,652

Capital Commitment Plan

The Executive Capital Commitment Plan includes approximately \$3 billion in Fiscal 2017-2021 for New York City Health and Hospitals. H+H's Capital Commitment Plan increased by \$403.9 million, or 16 percent, when compared to its Preliminary Plan, due largely to funding for construction projects and equipment purchases.

Generally, the Office of Management and Budget (OMB) frontloads budgets for capital projects, which usually span multiple fiscal years; therefore, agencies often roll unspent capital funds into future fiscal years. In Fiscal 2017, H+H committed \$880.9 million, or approximately 30 percent, of its annual capital plan. Therefore, H+H may roll a significant portion of its Fiscal 2018 Capital Plan into the outyears.

H+H 2017-2021 Capital Commitment Plan						
<i>Dollars in Thousands</i>						
	2017	2018	2019	2020	2021	Total
Executive Plan	\$880,917	\$789,803	\$662,178	\$421,261	\$204,248	\$2,958,407
Preliminary Plan	\$867,862	\$592,643	\$486,429	\$377,180	\$230,347	\$2,554,461
Change	\$13,055	\$197,160	\$175,749	\$44,081	(\$26,099)	\$403,946
Percentage Change	1.5%	33.3%	36.1%	11.7%	-11.3%	15.8%

Source: OMB Fiscal 2018 Executive Capital Commitment Plan

Hurricane Sandy-related reconstruction constitutes the most substantial capital project in H+H's portfolio.

- Hurricane Sandy Reconstruction.** The Executive Capital Commitment Plan includes approximately \$1.4 billion in Fiscal 2017-2021 to rectify the damage caused by Hurricane Sandy and to mitigate the effects of floods at H+H facilities, namely Bellevue, Coler, Coney Island, and Metropolitan. In collaboration with the Mayor's Office of Recovery and Resiliency and the New York City Economic Development Corporation, H+H also works to relocate and/or protect critical infrastructure equipment, including electrical, mechanical, heating and ventilation units.

Appendix 1: Fiscal 2018 Budget Actions since Fiscal 2017 Adoption

<i>Dollars in Thousands</i>	FY 2017			FY 2018		
	City	Non-City	Total	City	Non-City	Total
H+H Budget as of Adopted 2017 Plan	\$290,922	\$53,124	\$344,046	\$760,841	\$53,124	\$813,964
New Needs - Prelim 2018						
Correctional Health: Compliance	1,459	0	1,459	2,919	0	2,919
Correctional Health: Employee Services	849	0	849	2,997	0	2,997
Subtotal, New Needs	\$2,309	\$0	\$2,309	\$5,916	\$0	\$5,916
Other Adjustments - Prelim 2018						
Fiscal 2017 November Plan	\$291,339	\$112,514	\$403,853	\$760,841	\$60,409	\$821,250
Bellevue Flood Barrier H-Build	0	1,906	1,906	0	0	0
CIH Off-Site Parking	0	2,952	2,952	0	0	0
FEMA	0	245	245	0	0	0
Article 6 Adjustment- Chronic/ Tobacco	-1,979	0	-1,979	0	0	0
Article 6 Adjustment- HIV	-516	0	-516	0	0	0
Ending the Epidemic	241	0	241	0	0	0
Correctional Health - MH	0	5	5	0	5	5
DOHMH H+H Transfer for Chronic Disease	0	3,093	3,093	0	0	0
DOHMH H+H Transfer for HIV Services	0	806	806	0	0	0
Funds for Jacobi Hospital	0	6	6	0	0	0
Funds for Winston Services	0	1,541	1,541	0	0	0
FY17_2400_40X	0	462	462	0	0	0
HHC Prophylaxis Encumbrance	0	3	3	0	0	0
IC W/ HHC - Hepatitis B/C	0	356	356	0	0	0
IC W/ HHC - Pharmaceutical	0	3,116	3,116	0	1,350	1,350
IC W/ HHC - SBHC - Springfield	0	245	245	0	0	0
IC W/ HHC -Immunization Clinic	0	455	455	0	0	0
IC W/ HHC -Winston Temp	0	1,098	1,098	0	0	0
IC W/HHC - CHS Grants	0	261	261	0	0	0
IC W/HHC -ACT Teams	0	1,330	1,330	0	1,330	1,330
Intra-City with HHC for COP	0	143	143	0	0	0
NFP HHC	0	759	759	0	0	0
OAS State Aid Letter	0	340	340	0	340	340
Subtotal, Other Adjustments	(\$2,254)	\$19,122	\$16,868	\$0	\$3,026	\$3,026
TOTAL, All Changes - Prelim	\$55	\$19,122	\$19,176	\$5,916	\$3,026	\$8,942
H+H Budget as of the Prelim 2018 Plan	\$291,394	\$131,636	\$423,030	\$766,757	\$63,435	\$830,192
New Needs - Exec 2018						
CHS: Opioid Prevention and Treatment	1,839	0	1,839	5,005	0	5,005
Addiction Medicine Consult Teams	0	0	0	4,846	0	4,846
Subtotal, New Needs	\$1,839	\$0	\$1,839	\$9,851	\$0	\$9,851
Other Adjustments - Exec 2018						
Collective Bargaining: Local 924 Laborers	184	0	184	188	0	188
CHS Transfer	0	0	0	87	0	87
CHS Collective Bargaining	990	0	990	2,351	0	2,351
Funds for Jacobi Hospital	0	35	35	0	35	35
Funds for Winston Temp	0	867	867	0	0	0
OAS State Aid Letter	0	198	198	0	198	198
Bellevue Flood Barrier, FEMA	0	708	708	0	0	0
IC W/ HHC - Pharmaceutical	0	1,269	1,269	0	0	0
IC W/ HHC -Winston Temp	0	676	676	0	0	0
IC W/ HHC- Literacy Program	0	50	50	0	0	0
IC W/HHC - Correctional Health	0	414	414	0	29,301	29,301
IC W/HHC- Patient Navigators	0	356	356	0		0
FEMA	0	60	60	0	0	0
Psych Takedown	0	(2,335)	(2,335)	0	0	0
ExCEL Supplemental Agreement	0	349	349	0	0	0
Various Intercity	0	1,111	1,111	0	0	0

<i>Dollars in Thousands</i>	FY 2017			FY 2018		
	City	Non-City	Total	City	Non-City	Total
Subtotal, Other Adjustments	\$1,173	\$3,757	\$4,931	\$2,627	\$29,533	\$32,160
TOTAL, All Changes - Exec 20018	\$3,012	\$3,757	\$6,770	\$12,478	\$29,533	\$42,012
H+H Budget as of Fiscal 2018 Exec Plan	\$294,406	\$135,393	\$429,800	\$779,235	\$92,968	\$872,204

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