The Council of the City of New York

Hon. Corey Johnson
Speaker of the Council

Hon. Carlina Rivera
Chair, Committee on Hospitals

Report of the Finance Division on the
Fiscal 2019 Preliminary Budget and the
Fiscal 2018 Preliminary Mayor's Management Report for the

New York City Health and Hospitals

March 15, 2018

Finance Division
Jeanette Merrill, Financial Analyst
Crilhien R. Francisco, Unit Head

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

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New York City Health + Hospitals Overview

New York City Health and Hospitals (Health + Hospitals or H+H), formerly the New York City Health and Hospitals Corporation, constitutes the largest municipal hospital and healthcare system in the United States. The H+H system, comprised of 11 acute-care facilities with nearly 5,000 beds, five long-term care facilities with nearly 3,000 beds, and more than 70 community-based healthcare centers and extension clinics, employs more than 44,000 people and serves more than 1.1 million New Yorkers annually. H+H also operates a certified home health agency and a managed care plan, MetroPlus.

Acute Care Facilities by Borough

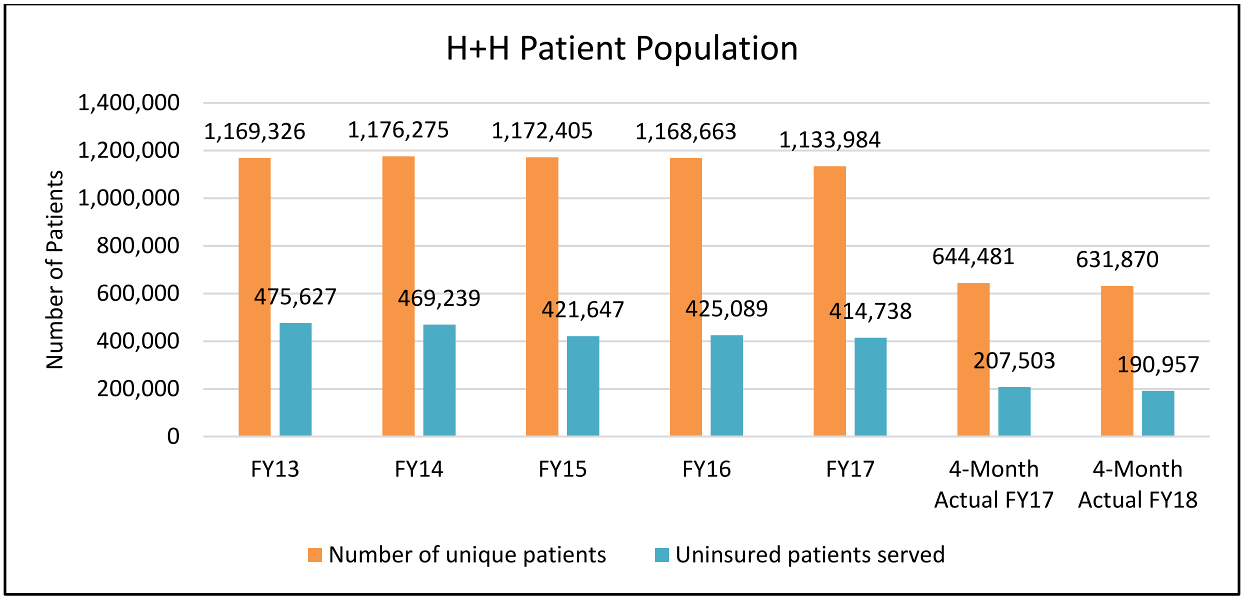
Bronx	Brooklyn	Queens	Manhattan
Jacobi	Coney Island	Elmhurst	Bellevue
Lincoln	Kings County	Queens	Harlem
North Central Bronx	Woodhull		Metropolitan

H+H does not operate an acute-care facility on Staten Island, but it does maintain two neighborhood health centers, an ambulatory care center, a nursing home, and mobile medical vans that service the borough.

H+H remains the City's single largest provider of healthcare to Medicaid patients and uninsured New Yorkers. In 2014, approximately half of the uninsured hospital stays and emergency department visits in the City occurred in the H+H system – a disproportionate share relative to every other health system in the City. In addition to medical and behavioral health services, H+H provides trauma care, burn care, high-risk neonatal and obstetric care, and other specialized services – all provided to New York City residents regardless of their ability to pay.

H+H conducts mental health evaluations for family courts in the Bronx, Brooklyn, Queens, and Manhattan and provides emergency medical care and inpatient health services to inmates in New York City correctional facilities. In July 2015, the de Blasio Administration transitioned Correctional Health Services in the City's jail system from Corizon Health, a for-profit company that contracted with the NYC Department of Health and Mental Hygiene (DOHMH) for $154 million, to H+H. The transfer occurred through a Memorandum of Understanding between H+H and DOHMH.

Stanley Brezenoff served as interim President and CEO of H+H until Dr. Mitchell Katz, formerly of the Los Angeles County Health Agency, assumed the role in January 2018.



The above graph shows the number of unique patients visiting H+H's facilities, as well as the number of uninsured patients the health system serves. In Fiscal 2017, H+H served approximately 1.13 million patients, a decrease of more than 35,000 patients, or three percent, when compared to the 1.17 million patients the system treated in Fiscal 2013. In the first four months of this fiscal year, H+H served approximately 632,000 patients, a decrease of more than 12,000 patients, or two percent, when compared to the same period last year.

Regarding the uninsured patient population, H+H served approximately 415,000 uninsured patients in Fiscal 2017, a decrease of more than 60,000 patients, or nearly 15 percent, when compared to the 476,000 uninsured patients served in Fiscal 2013. The four-month actual report for Fiscal 2018 also indicates a decrease in H+H's uninsured patient population to about 191,000 uninsured patients, compared to about 207,500 uninsured patients during the same period last year. H+H will continue to work to increase the number of patients it serves while it strives to decrease its uninsured patient population through health insurance enrollment efforts.

Report Overview

A financial agreement reached with the City in 1992 authorizes H+H to develop a consolidated annual expense and revenue budget with the approval of the H+H Board of Directors and the City. 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 City's $88.67 billion Fiscal 2019 Preliminary Budget does not include H+H's annual expense and revenue budget, but the City's Capital Budget and Capital Commitment Plan include all H+H capital projects.

Although the Council is conducting budget hearings on the Fiscal 2019 Preliminary Budget, this report reviews H+H's budget as of the Fiscal 2018 Executive Budget. The Council made multiple requests to the New York City Office of Management and Budget (OMB) for an updated plan, but the agency would only provide a budget that is nearly a year out of date. This failure to share basic information undermines the Council's ability to execute its Charter-mandated role. The City

Charter grants the City Council the responsibility for oversight and investigation of the property, affairs, and government of the City. As the City's public hospital system, H+H is an integral component of the City's government and the general welfare of its residents. In order to analyze H+H's fiscal health, and to ensure transparency and accountability in our municipal hospital system, the Council requires complete, accurate, and timely financial information, particularly given the City's substantial investments in H+H.

The report addresses the Fiscal 2019 expense budget highlights, followed by the relevant New York State budget actions and the Fiscal 2018 Preliminary Mayor's Management Report. Next, the report reviews H+H's Fiscal 2019 Preliminary Capital Budget and Commitment Plan for Fiscal 2018-2022. The appendices outline the Budget Actions in the November and Preliminary Plans.

NYC Health + Hospital Fiscal 2018 Executive Financial Plan

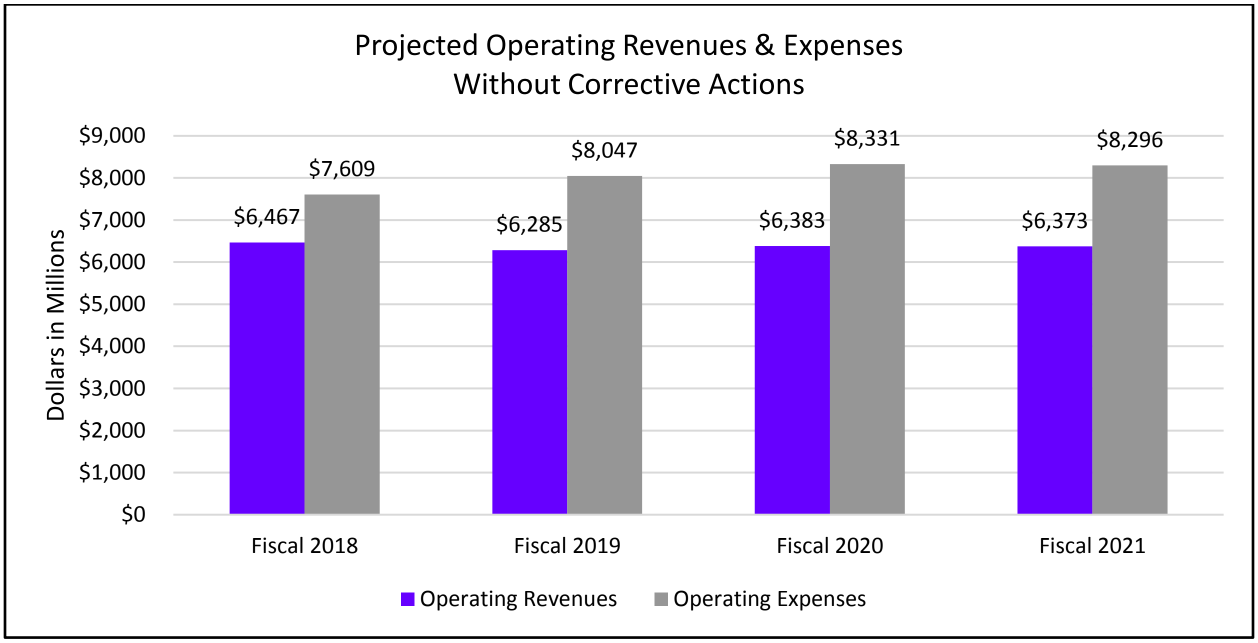
***Cash Basis* (\$ in millions)**				
	Projected 2018	**Projected 2019**	**Projected 2020**	**Projected 2021**
OPERATING REVENUES				
Third Party Revenue				
Medicaid	$2,010	$2,079	$2,146	$2,176
Medicare	$1,061	$1,082	$1,101	$1,108
Other Managed Care	$354	$354	$354	$354
Supplemental Medicaid	$1,714	$1,422	$1,430	$1,381
Disproportionate Share Hospital (DSH)	*$1,119*	*$930*	*$952*	*$958*
Other Supplemental Payments	*$596*	*$492*	*$477*	*$423*
Subtotal: Third Party Revenue	**$5,138**	**$4,936**	**$5,030**	**$5,019**
Other Revenue				
City Services	$829	$849	$852	$853
Grants and Other	$500	$500	$501	$501
Subtotal: Other Revenue	**$1,329**	**$1,349**	**$1,353**	**$1,354**
TOTAL OPERATING REVENUES	**$6,467**	**$6,285**	**$6,383**	**$6,373**
Personal Services	$2,951	$2,986	$3,015	$3,046
Fringe Benefits	$1,475	$1,543	$1,634	$1,672
Affiliations	$1,105	$1,120	$1,126	$1,196
Other Than Personal Services	$2,078	$2,398	$2,556	$2,382
TOTAL OPERATING EXPENSES	**$7,609**	**$8,047**	**$8,331**	**$8,296**
TOTAL OPERATING INCOME/(LOSS)	**($1,142)**	**($1,762)**	**($1,948)**	**($1,923)**

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 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.

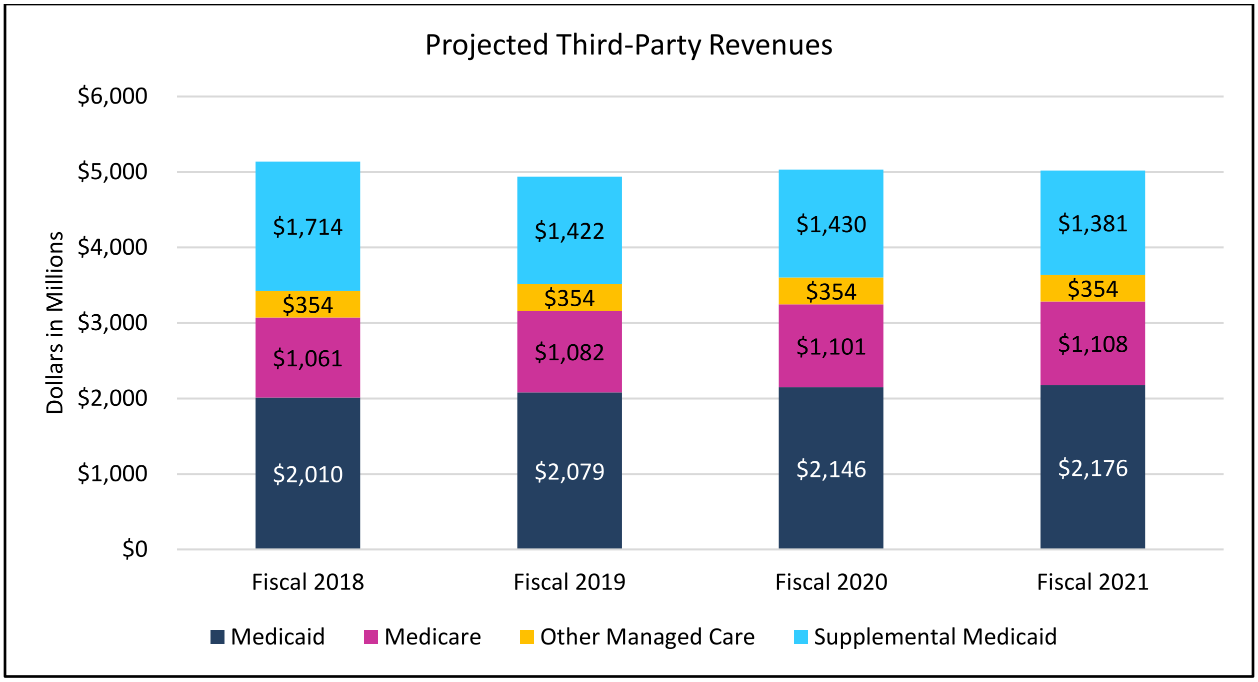
Projected Operating Deficit (Fiscal 2018 through Fiscal 2021)

According to its Fiscal 2018 Executive Plan, without corrective actions, H+H anticipates a Fiscal 2018 operating loss of $1.1 billion and a Fiscal 2019 operating loss of $1.8 billion. Based on its current fiscal conditions, without corrective actions, H+H anticipates operating deficits totaling $1.9 billion in Fiscal 2020 and 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.



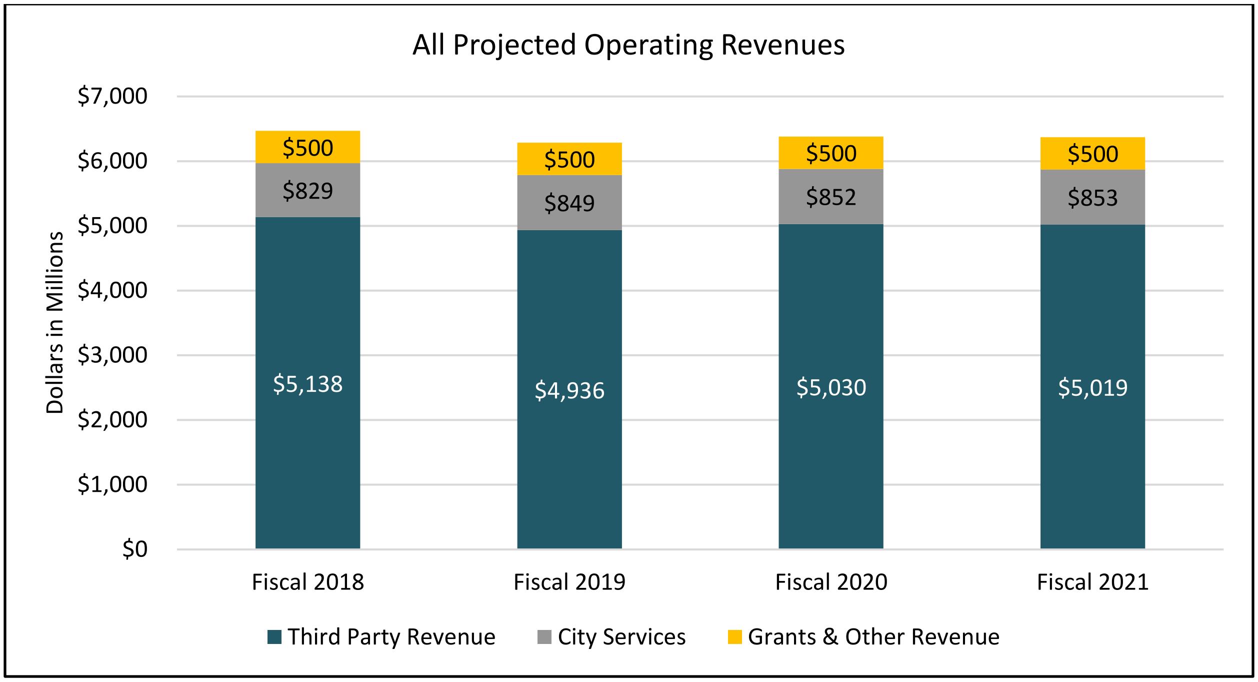
Projected Operating Revenues

Based on its Fiscal 2018 Executive Plan, H+H expects $6.3 billion in operating revenues in Fiscal 2019, a decrease of $182 million or three percent, when compared to the Fiscal 2018 revenues of $6.5 billion. Third party receipts, which comprise 79 percent of H+H's total Fiscal 2019 operating revenues, decrease by $202 million or four percent, when compared to Fiscal 2018. Third party receipts include reimbursements from Medicaid, Medicare, and other Managed Care, as well as Supplemental Medicaid payments.



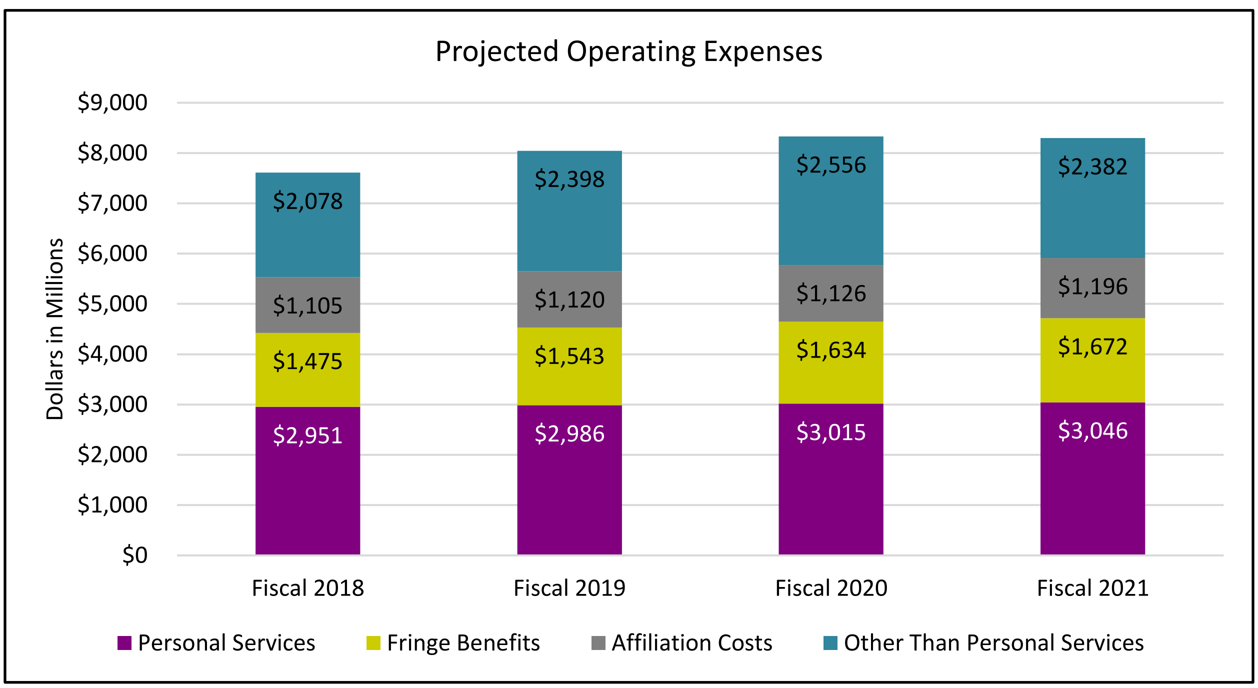
H+ H projects a $69 million, three percent increase in Medicaid revenue between Fiscal 2018 and Fiscal 2019 and a $21 million or two percent increase in Medicare revenue. H+H expects other Managed Care revenue to remain steady between Fiscal 2018 and Fiscal 2019 at $354 million. Regarding Supplemental Medicaid funding, H+H projects a $292 million, or 17 percent, decline. Disproportionate Share Hospital (DSH) funding and Other Supplemental Payments comprise the Supplemental Medicaid revenue and total $930 million and $492 million in Fiscal 2019, respectively. The DSH projections require modification, however, because the February 2018 federal budget bill delays the scheduled DSH payment cuts by two years, through 2018 and 2019. See page 9 for more information on DSH funding.

Other revenue sources, comprised of City Services funding, grants, and other revenue increases by $21 million, or two percent, between Fiscal 2018 and Fiscal 2019 to $1.35 billion. An increase in City funding, from $829 million in Fiscal 2018 to $849 million in Fiscal 2019, drove the increase. City Services funding, which includes the City subsidy, increases to $852 million in Fiscal 2020 and to $853 million in Fiscal 2021. Grants and other revenue sources total $500 million in Fiscal 2018 and in each subsequent fiscal year.



Operating Expenses Projections

Based on its Fiscal 2018 Executive Plan, H+H expects $8 billion in operating expenses in Fiscal 2019, an increase of $438 million or more than five percent, when compared to Fiscal 2018 expenses. Personal Services (PS) total $3 billion in Fiscal 2019; fringe benefits total $1.5 billion, and affiliation costs total $1.1 billion – all minor increases when compared to Fiscal 2018 totals. Other Than Personal Services (OTPS) spending increases by $320 million or 15 percent in Fiscal 2019, when compared to Fiscal 2018 OTPS costs.



Fiscal 2019 Highlights

H+H reports $904.8 million in outside revenue in Fiscal 2019, comprised of $813.7 million in CTL, $91 million in intracity funding, and $166,000 in federal Urban Areas Security Initiative – Homeland Security funding. The total includes the $264.4 million City subsidy. H+H also reports $608.9 million in outside revenue in Fiscal 2018, including $489 million in CTL and $119 in non-City funding.

H+H's new expense funding totals $1.2 million in Fiscal 2018 and $6.1 million in Fiscal 2019 and primarily supports Correctional Health Services (CHS) – a division of H+H. Additional funding provides for physician training and staffing increases.

New Needs

- **Correctional Health Services: Expansion of Enhanced Pre-Arraignment Screening Units.** The Fiscal 2019 Preliminary Plan includes $657,000 in Fiscal 2018, $3.9 million in Fiscal 2019, $6.3 million in Fiscal 2020, and $7.4 million in the outyears to expand the enhanced pre-arraignment health screening units to central booking sites in Brooklyn/Staten Island, the Bronx, and Queens.
- **Correctional Health Services: Women in Rikers.** The Plan includes $206,000 in Fiscal 2018 and $1.2 million in Fiscal 2019 and in the outyears to expand intimate partner violence (IPV) counseling, healthy lifestyle therapy program, and mental health infirmary services for women in Rikers. CHS will direct approximately $300,000 of the Fiscal 2019 funding to the IPV counseling, $300,000 to the healthy lifestyle therapy program, and $600,000 to the infirmary services. Overall, the funding will support five counselors. CHS plans to reach 250 women through the IPV counseling, 400 women through the healthy lifestyle therapy program, and the entirety of the female population with co-morbid severe medical and mental illness through the infirmary.

  First Lady Chirlane McCray launched this $6 million Women in Rikers initiative in February 2018 in order to rehabilitate female inmates and reduce recidivism. The initiative builds on efforts to reduce the jail population at Rikers Island, which detains about 630 women daily.
- **Expansion of Forensic Clinic Capacity.** The Plan includes $281,000 in Fiscal 2018, $954,000 in Fiscal 2019, and $787,000 in the outyears to hire five forensic examiners in the Queens clinic in order to reduce the completion time of Criminal Procedure Law 730 (CPL 730) defendant exams. These exams assess an individual's mental fitness, or competence, to stand trial. The Mayor's Office of Criminal Justice (MOCJ) reports that H+H currently requires an average 43 days to complete a CPL 730 defendant exam, measured from the time an exam is ordered to the time it is delivered to court. In 2016, 299 individuals required at least one CPL 730 exam.
- **NYC Unity Project.** The Plan allocates $86,000 in Fiscal 2018 and $79,000 in Fiscal 2019 to H+H as part of the Unity Project, the City's first multi-agency strategy to enhance services for LGBTQ youth. The training will educate direct care providers on linkages to pediatric endocrinology – the branch of medicine concerned with endocrine glands and hormones – and to other transgender youth medical services. As part of the NYC Unity

Project, the Plan also allocates nearly $1 million in Fiscal 2019 and in the outyears to the Department of Youth and Community Development (DYCD) for runaway homeless youth drop-in centers. DOHMH also receives about $1 million in Fiscal 2019 and in the outyears to implement the Project's Comprehensive Drug and Alcohol Misuse Prevention Program.

Other Adjustments

- **Correctional Health Services: Expansion of Naloxone Distribution:** The Preliminary Plan includes $255,000 in Fiscal 2018 and $511,000 in Fiscal 2019 and in the outyears to expand naloxone training and distribution to visitors at City jails. CHS currently distributes naloxone at the Rikers Island Visitor Center. The adjusted funding will enable H+H to expand its services to the borough jails – Manhattan Detention Center (MDC), Brooklyn Detention Center (BKDC), and Vernon C. Baines Center (VCBC) – as well as the CHS Queens Assistance Center across the bridge from Rikers Island. Outreach staff intend to distribute 4,400 kits annually.

  Outreach staff will engage visitors at MDC and BKDC as they wait in line and will conduct training and distribution near the entrance of the facilities. Engagement at VCBC will occur at the Visitor Center, while the CHS Queens Assistance Center dedicates meeting space for individuals leaving Rikers Island.

  The City's Fiscal 2018 Budget allocated $5 million annually to H+H to expand access to naloxone, methadone, and buprenorphine and to improve discharge planning/outpatient referral services. The Budget also added $4.8 million in Fiscal 2018 and $2 million in Fiscal 2019 to design and implement Addiction Medicine Consult Teams (AMCTs) at four H+H facilities: Coney Island, Metropolitan, Lincoln, and Elmhurst. The AMCTs engage H+H patients who present with opioid use disorders in order to discuss addiction treatment and care management.

- **Correctional Health Services: Modular Trailer.** The Plan includes $1.6 million in Fiscal 2018 to purchase and install a modular trailer for CHS program space on Rikers Island. The trailer will provide administrative space for H+H's mental health staff, as the current temporary space poses a number of health and safety issues and is too small to accommodate the growing staff.

New York State Budget Actions

Fiscal 2018-2019 State Executive Budget

New York State's Medicaid program remains the State's largest payer of healthcare and long-term care. More than six million individuals receive Medicaid-eligible services through a network of more than 80,000 healthcare providers and more than 90 managed care plans. Total federal, State, and local Medicaid spending is expected to total $70.2 billion in Fiscal 2019, a 2.5 percent increase over what the State spent this year. The Fiscal 2018-2019 State Executive Budget adheres to the Medicaid spending cap, a provision that ties Medicaid growth to the 10-year rolling average of the Medical Consumer Price Index – currently estimated at 3.2 percent.

H+H remains the City's single largest provider of healthcare to Medicaid patients. Medicaid patients comprise approximately 60 percent of all H+H inpatient discharges, 50 percent of all emergency department visits, 43 percent of all ambulatory surgery visits, and 53 percent of all hospital clinic visits.

Federal Concerns

The Fiscal 2018-2019 State Executive Budget assumes the continuation of the Affordable Care Act (ACA) and includes $694 million in total funding for the operation of the New York State of Health. As of February 2018 (Calendar Year), 4.3 million New Yorkers have received insurance coverage through the New York State of Health marketplace, an increase of 700,000 people from February 2017.

Despite the withholding of federal Cost Sharing Reduction (CSR) payments, the State Budget also continues to support the Essential Plan, a facet of the ACA's Basic Health Program. The Essential Plan provides low- or no-cost healthcare for New Yorkers making up to twice the poverty level – more than the limit allowed by Medicaid. More than 700,000 New Yorkers have enrolled in the Essential Plan. As part of the CSR agreement, the federal government would pay the State 95 percent of the amount it would have paid in premium subsidies and CSR payments on the marketplace for these enrollees; however, in December 2017, the federal Department of Health and Human Services (HHS) stopped paying the CSR subsidies. In January 2018, NY Attorney General Eric Schneiderman filed suit to restore the federal funding.

Healthcare Shortfall Fund

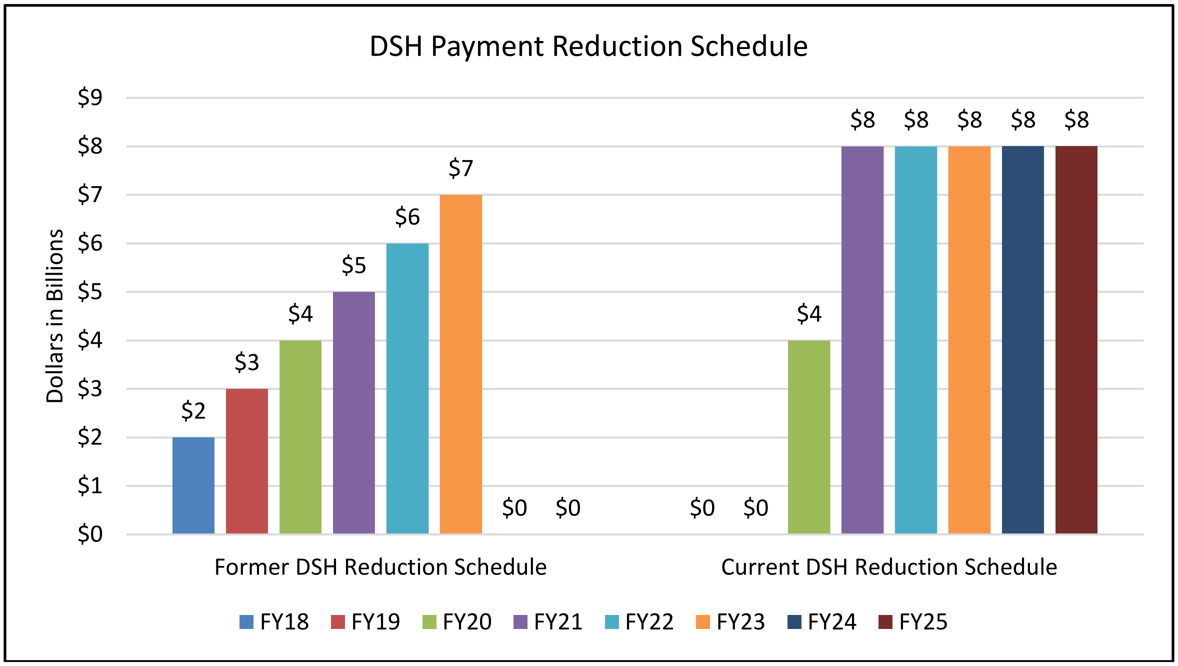
The Fiscal 2018-2019 State Executive Budget creates a new fund to ensure the continued availability and expansion of funding for health services and to mitigate risks associated with the loss of federal healthcare funds. Specifically, the fund would mitigate the cuts to the CSR program and the Medicaid DSH program. To populate the fund, the State Budget modifies a conversion statute related to for-profit health insurers assuming ownership of the assets of not-for-profit health insurers.

The State's Financial Plan includes $750 million annually over four years ($3 billion total) from these conversions, acquisitions, and related transactions. Of the $750 million, the State would use $500 million to fund Medicaid and to offset General Fund spending and would deposit $250 million into a new NY State Health Care Reform (HCRA) account called the Healthcare Reserve Shortfall Account. However, the State Budget does not specify the method for estimating the revenue these conversions would generate. If these conversions do not occur, the State's operating budget would be short $2 billion, and $1 billion would not be available to offset the loss of federal health care subsidies.

DSH Payments

The ACA includes reductions in DSH funding that were to take effect in 2014 based on the assumption that uninsured rates would drop nationwide because of the ACA's coverage expansion. In NY State, between 2013 and 2014, voluntary hospitals reported a 15 percent median decrease in spending on all uninsured patients. Public hospitals, however, reported an 11 percent median increase in spending on all uninsured patients. Congress has repeatedly delayed the ACA's DSH reduction schedule, shifting the phase-in of cuts by four years to 2018. The February 2018 federal budget bill further delays the DSH payment cuts by two years, through 2018 and 2019.

The bill maintains a $4 billion reduction for 2020 (consistent with prior law) and increases the annual DSH reduction to $8 billion per year from 2021 through 2025. Under the old law, the DSH reduction schedule was $5 billion for 2021, $6 billion for 2022, and $7 billion for 2023. The delays will increase the total reductions from $27 billion over six years (2018-2023) to $44 billion over six years (2020-2025). The graph below breaks down the change in DSH reduction under the old law and the current schedule.



H+H is currently assessing how the new methodology will affect its projected deficits. The delay in DSH cuts could decrease H+H's gap by approximately $200 million in Fiscal 2018 and by approximately $400 million in Fiscal 2019.

New York City Health + Hospitals Transformation Plan

In April 2016, Mayor de Blasio unveiled *One New York: Health Care for Our Neighborhoods*, a comprehensive transformation plan for H+H to achieve financial sustainability and operational success. The Plan promotes four primary goals: stabilizing funding, expanding community-based healthcare, improving efficiency, and remodeling an outdated system. According to its Fiscal 2018 Executive Plan, without corrective actions, H+H anticipates a Fiscal 2018 operating loss of $1.1 billion in Fiscal 2018, growing to $1.8 billion in Fiscal 2019 and to $1.9 billion in Fiscal 2020 and Fiscal 2021.

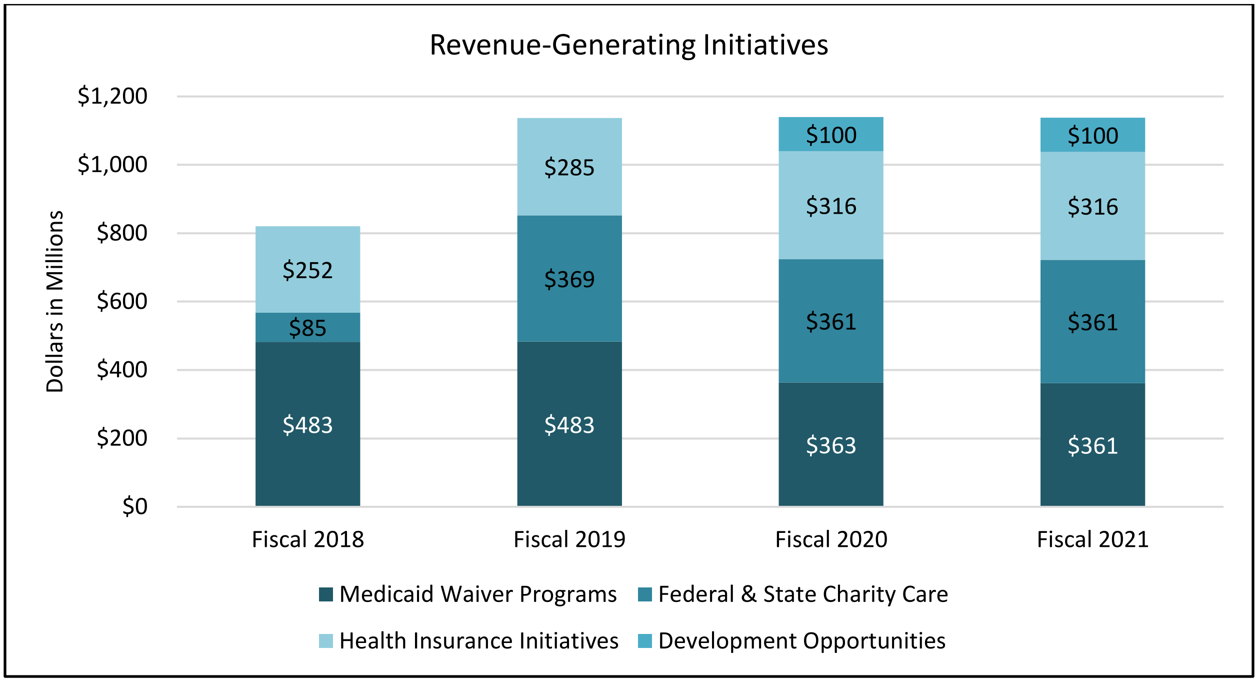
On February 28, 2018 (Calendar Year), the NYC Council Committee on Hospitals held an oversight hearing titled, "Examining the Status of 'One New York: Health Care for Our Neighborhoods': What Progress Has Been Made and What Challenges Lie Ahead?" Dr. Katz testified and addressed the need for H+H to insure all insurable people and properly bill for services delivered. He also spoke about the importance of retaining revenue-generating positions throughout the H+H system and increasing the scope of services in order to decrease wait times.

The Fiscal 2018-2021 Plan closes operating deficits by generating revenues and reducing expenses. To close the $1.1 billion Fiscal 2018 deficit, H+H anticipates $820 million from revenue-generating initiatives and $387 million in savings from expense-reducing initiatives, for a Fiscal 2018 corrected operating total of $65 million. To address the $1.8 billion gap in Fiscal 2019, H+H projects $1.1 billion in revenue and $619 million in savings from the corrective actions, for a Fiscal 2019 total of a negative $6 million. To address the $1.9 billion deficits in Fiscal 2020 and Fiscal 2021, the revenue-generating initiatives provide $1.3 billion annually and the expense-reducing initiatives save $748 million annually, for a corrected Fiscal 2020 total of a negative $61 million and a corrected Fiscal 2021 total of a negative $38 million.

	Projected 2018	Projected 2019	Projected 2020	Projected 2021
TOTAL OPERATING LOSS	**($1,142)**	**($1,762)**	**($1,948)**	**($1,923)**
Revenue-Generating Initiatives				
Medicaid Waiver Programs	$483	$483	$363	$361
Federal and State Charity Care	$85	$369	$361	$361
Health Insurance Initiatives	$252	$285	$316	$316
Development Opportunities	$0	$0	$100	$100
Total: Revenue Initiatives	**$820**	**$1,137**	**$1,139**	**$1,138**
Expense-Reducing Initiatives				
Supply Chain & Care Management	$137	$171	$204	$204
Restructuring & Personnel	$250	$448	$544	$544
Total: Expense Initiatives	**$387**	**$619**	**$748**	**$748**
TOTAL WITH CORRECTIVE ACTIONS	**$65**	**($6)**	**($61)**	**($38)**

Revenue-Generating Initiatives

Revenue-generating initiatives form the bulk of the Transformation Plan efforts at 62 percent and include Medicaid waiver programs, federal and State charity care, health insurance initiatives, and development opportunities. These revenue-generating initiatives provide $820 million in Fiscal 2018 and approximately $1.1 billion each subsequent fiscal year. Notably, two revenue-generating initiatives – Medicaid waiver programs and federal and State charity care – require State and federal action.



Medicaid Waiver Programs

Projected revenue from Medicaid waiver programs totals $483 million in Fiscals 2018 and 2019 and $363 million in Fiscals 2020 and 2021. Funding from the Delivery System Reform Incentive Payment (DSRIP) program informs the Medicaid Waver revenue projections. The DSRIP program, implemented in April 2014, restructures New York State's healthcare delivery system in an effort to reduce avoidable hospital use by 25 percent over five years. The program supports the transition from a fee-for-service model to a value-based payment method and managed care structure.

H+H also anticipates generating revenue by converting Upper Payment Limit (UPL) funding to DSRIP funding. UPL payments are increases in the Medicaid reimbursement rates for providers who serve a large number of Medicaid patients. The City determines its UPL payments through the rates it is willing to pay and able to negotiate with the federal government. The conversion to DSRIP speaks to the State's interest in aligning supplemental Medicaid payments to value-based purchasing.

H+H also anticipates generating revenue through the Value-Based Payment Quality Improvement Program (VBP QIP). VBP QIP assists hospitals in severe financial distress, enabling these facilities to maintain operations and vital services while they work toward longer-term sustainability, improved quality, and alignment with the State's value-based payment initiatives.

Federal and State Charity Care

Projected revenue from Federal and state charity care totals $85 million in Fiscal 2018, $369 million in Fiscal 2019, and $361 million in Fiscals 2020 and 2021. H+H anticipates securing this funding by converting Disproportionate Share Hospital (DHS) payments to DSRIP funding. DSH payments constitute block subsidies for hospitals that report high rates of Medicaid patients and uninsured patients. Again, the conversion speaks to the State's interest in tying supplemental Medicaid funding to hospital quality, costs, and outcomes.

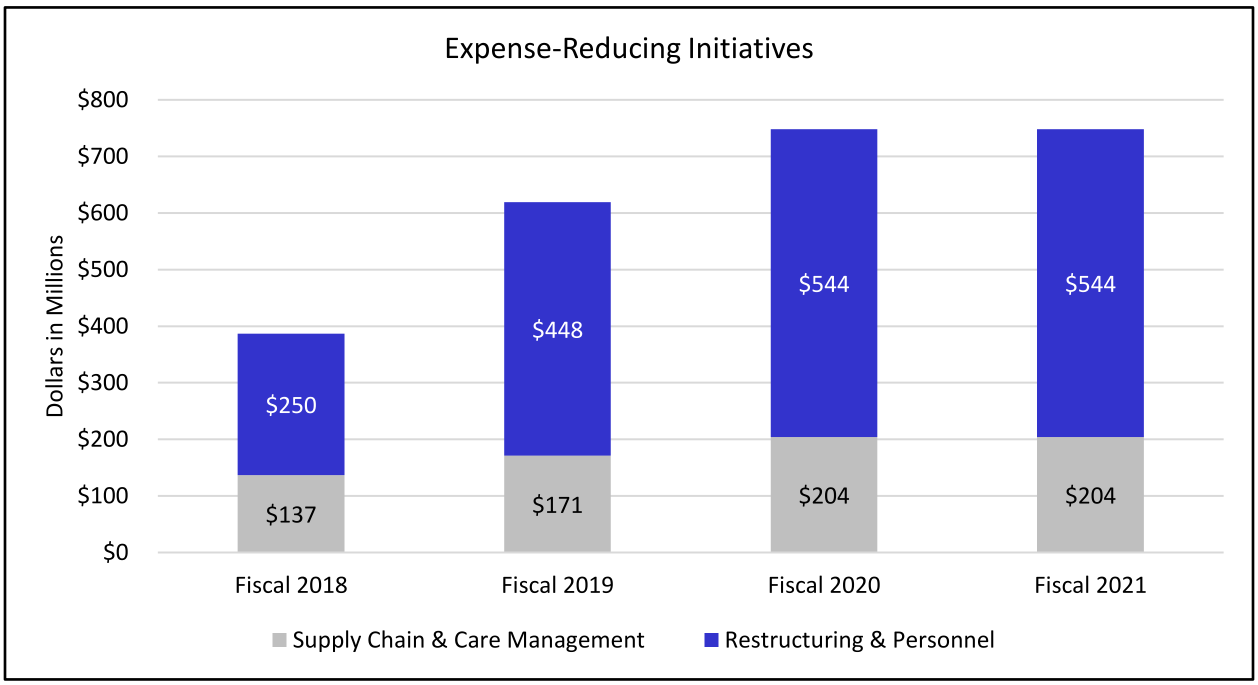
Health Insurance
Projected revenue from health insurance initiatives totals $252 million in Fiscal 2018, $285 million in Fiscal 2019, and $316 million in Fiscals 2020 and 2021. MetroPlus, a health insurance plan owned by H+H, offers low to no-cost coverage to approximately 505,000 New Yorkers – primarily Medicaid enrollees. In Fiscal 2017, MetroPlus membership totaled approximately 503,000 members, an increase of more than 30,000 people or about seven percent, when compared to Fiscal 2015 enrollment numbers. In the first four months of Fiscal 2018, MetroPlus membership totaled approximately 504,500 members, an increase of about 1,000 members or less than one percent, when compared to the same period last year.

The Transformation Plan, however, estimates that MetroPlus membership will approach 675,000 members by 2020 based on outreach efforts and the expansion of community-based care.

Development Opportunities
Projected revenue from Development Opportunities on City-owned H+H properties totals $100 million in Fiscal 2020 and Fiscal 2021.

Expense-Reducing Initiatives

Expense-reducing initiatives comprise approximately 37 percent of the Transformation Plan and include supply chain and care management initiatives and restructuring and personnel initiatives. Expense-reducing initiatives provide $387 million in savings in Fiscal 2018, $619 million in Fiscal 2019, and $748 million in Fiscal 2020 and Fiscal 2021.

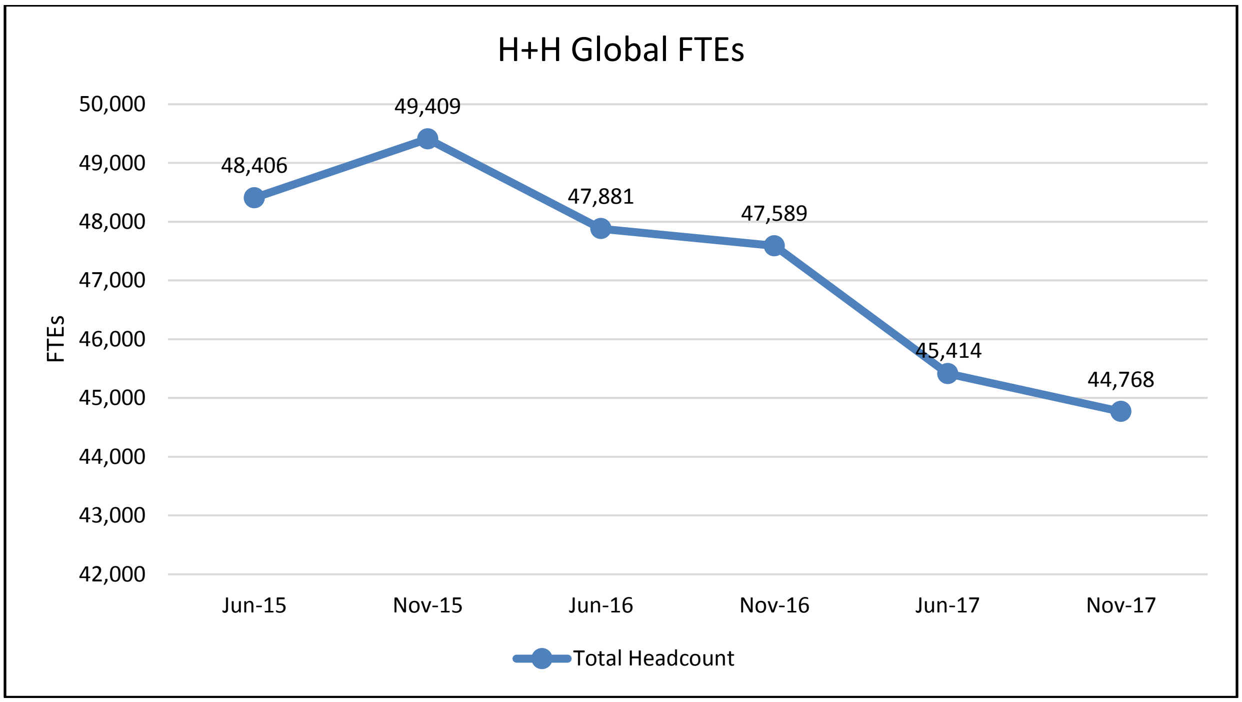


Supply Chain Efficiencies
In an effort to improve quality and save costs, H+H continues to redesign its supply chain services by centralizing the management of several large, core services into one division. The hospital system identifies opportunities for savings and revenues by re-negotiating existing contracts, reducing cost and waste, and capitalizing on government pharmaceutical subsidies. Projected

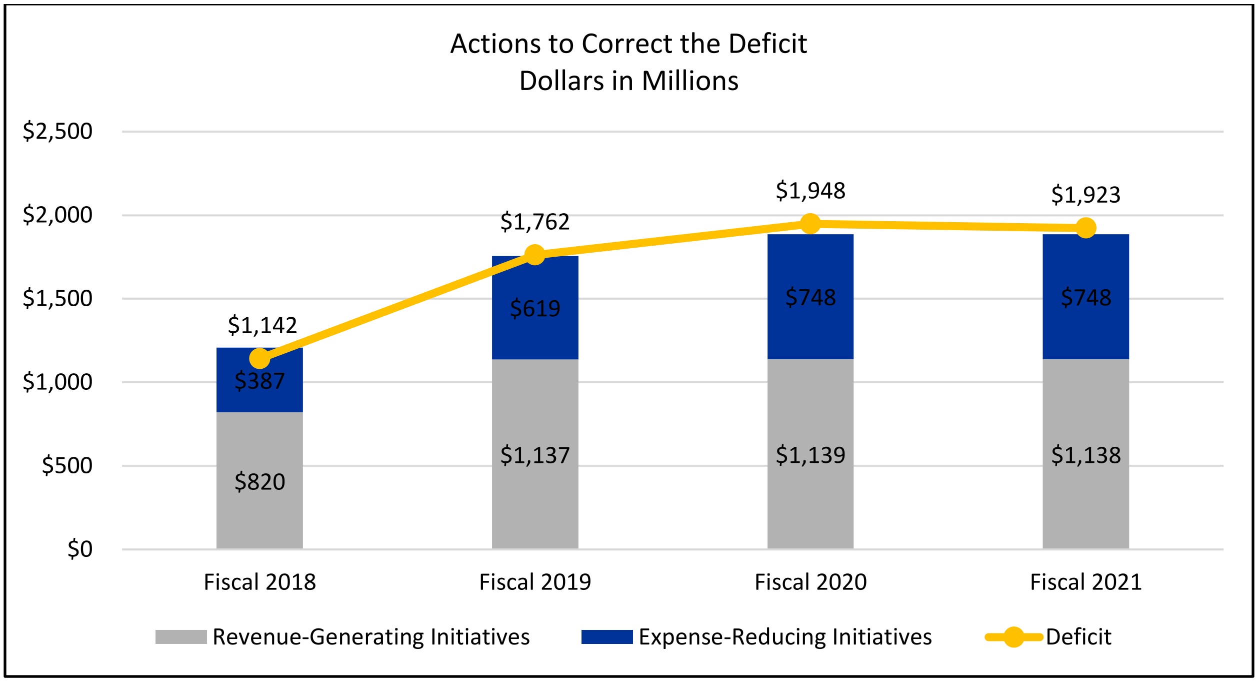
savings from supply chain initiatives total $137 million in Fiscal 2018, $171 million in Fiscal 2019, and $204 million in Fiscals 2020 and 2021.

Restructuring & Personnel

The restructuring of healthcare services generates the greatest savings in the Plan, providing $250 million in Fiscal 2018, $448 million in Fiscal 2019, and $544 million in Fiscal 2020 and Fiscal 2021. As of November 2017, global full-time equivalents (FTEs) have dropped by 4,641 positions since November 2015 to 44,768 FTEs – the result of attrition and non-union layoffs. The following graph shows H+H's global FTEs from June 2015 to November 2017 – based on the key indicator reports provided at H+H's Finance Committee Board of Directors meetings. The FTEs include H+H's central office staff, as well as overtime, hourly, temporary, and affiliate positions. Also included in the headcount are the care management FTEs and the Enterprise IT FTEs - which includes consultants.



The following graph depicts H+H's actions to correct the health system's projected deficits. In Fiscal 2018, H+H anticipates $820 million from revenue-generating initiatives and $387 million from expense-reducing initiatives for a combined $1.2 billion to fill the $1.2 billion gap. To address the $1.8 billion gap in Fiscal 2019, H+H expects $1.1 billion from revenue-generating initiatives and $619 million from expense-reducing initiatives. In Fiscal 2020 and Fiscal 2021, the deficit totals approximately $1.9 billion; H+H projects $1.1 billion from revenue-generating initiatives and $748 million from expense-reducing initiatives each year in order to fill these gaps.



Fiscal 2018 Preliminary Mayor's Management Report

The Fiscal 2018 Preliminary Mayor's Management Report assesses H+H's provision of medical, mental health, and substance abuse services to New York City residents regardless of their ability to pay. Specifically, the report evaluates H+H's efforts to expand access to care, to increase the number of patients served, and to maximize quality of care and patient satisfaction.

H+H strives to provide quality health care to all New Yorkers regardless of income, race, or immigration status. In order to expand access to physical and mental health services, H+H is establishing new ambulatory sites in high-need neighborhoods, integrating mental and physical health services, and expanding telehealth to leverage specialist capacity. H+H's cost savings and revenue enhancement activities include implementing the Epic electronic medical record and revenue cycle systems, launching an enterprise resource planning software system, and expanding supply chain initiatives.

H+H also identifies access to comprehensive, high quality services for lesbian, gay, bisexual, transgender, and queer (LGBTQ) New Yorkers as a top priority of the health system. All H+H facilities received the 2017 Leader in LGBTQ Healthcare Equality designation, marking the third consecutive year the Human Rights Campaign recognized H+H for implementing policies and practices related to the equity and inclusion of LGBTQ patients, visitors, and employees.

The following chart lists H+H performance indicators related to the goal of expanding access to care.

H+H Performance Indicators	Actual			Target		4-Month Actual	
	FY15	FY16	FY17	FY18	FY19	FY17	FY18
Eligible women receiving a mammogram screening (%)	77.8%	76.4%	75.4%	80.0%	80.0%	75.9%	74.3%
HIV patients retained in care (%) (annual)	86.1%	85.7%	83.5%	85.0%	85.0%	NA	NA
Emergency room revisits for adult asthma patients (%)	6.1%	6.2%	6.9%	5.0%	5.0%	8.2%	6.3%
Emergency room revisits for pediatric asthma patients (%)	3.1%	3.2%	3.6%	3.2%	3.2%	3.0%	3.1%
Adult patients discharged with a principal psychiatry diagnosis who are readmitted within 30 days (%)	7.4%	6.8%	7.1%	8.5%	8.5%	7.3%	6.8%
Hospital-acquired Central Line-Acquired Bloodstream Infection (CLABSI) rate	0.940	0.900	1.000	1.000	1.000	0.700	1.080
Calendar days to third next available new appointment - adult medicine	26.0	23.0	18.6	14.0	14.0	24.0	16.2
Calendar days to third next available new appointment - pediatric medicine	6.5	5.0	5.1	5.0	5.0	9.0	7.3
Patient Cycle Time – Adult Medicine (minutes)	NA	88	79	60	60	78	83
Patient Cycle Time – Pediatrics (minutes)	NA	70	70	60	60	68	77
Patient Cycle Time – Women's Health (minutes)	NA	76	88	60	60	69	91

The percentage of eligible women receiving a mammogram screening at an H+H facility continues to decline, as does the annual percentage of HIV patients retained in care at an H+H facility, falling to 75.4 percent and 83.5 percent in Fiscal 2017, respectively.

The percentage of emergency room revisits for asthma patients has also worsened for the last three fiscal years – for both adult and pediatric patients. To reduce revisits, OneCity Health (H+H and its partners in a Performing Provider System) assigns community health workers to visit patients' homes to reinforce strategies to help patients and their families maintain control over asthma. H+H reports that these visits identify and address asthma triggers in the home and offer new pillowcases, special cleaning supplies, and professional pest control services as needed.

H+H has proved more successful in reducing the percentage of adult patients discharged with a principal psychiatry diagnosis who are readmitted within 30 days. In the first four months of Fiscal 2018, H+H readmitted 6.8 percent of these patients – a 0.5 percent improvement when compared to the same period last year and within the 8.5 percent Fiscal 2018 target. In order to reduce readmissions, H+H has worked to integrate behavioral healthcare services in primary care settings and to engage patients through peer counseling and other community based supports. H+H reports that improved access to mental health and substance use ambulatory clinics have contributed to improved engagement in treatment, resulting in lower re-hospitalization rates.

H+H continues to reduce the number of calendar days to the third next available new appointment for both adult and pediatric visits. In the first four months of Fiscal 2018, H+H reported 16.2 days to the third next available new appointment for adult patients – an improvement of 7.8 days when compared to the same period last year. Wait times for pediatric visits improved by 1.7 days during this period to 7.3 days. In order to reduce patient wait times, H+H continues to expand hours of operation, add staff, and work with MetroPlus to better manage provider panels for new patients.

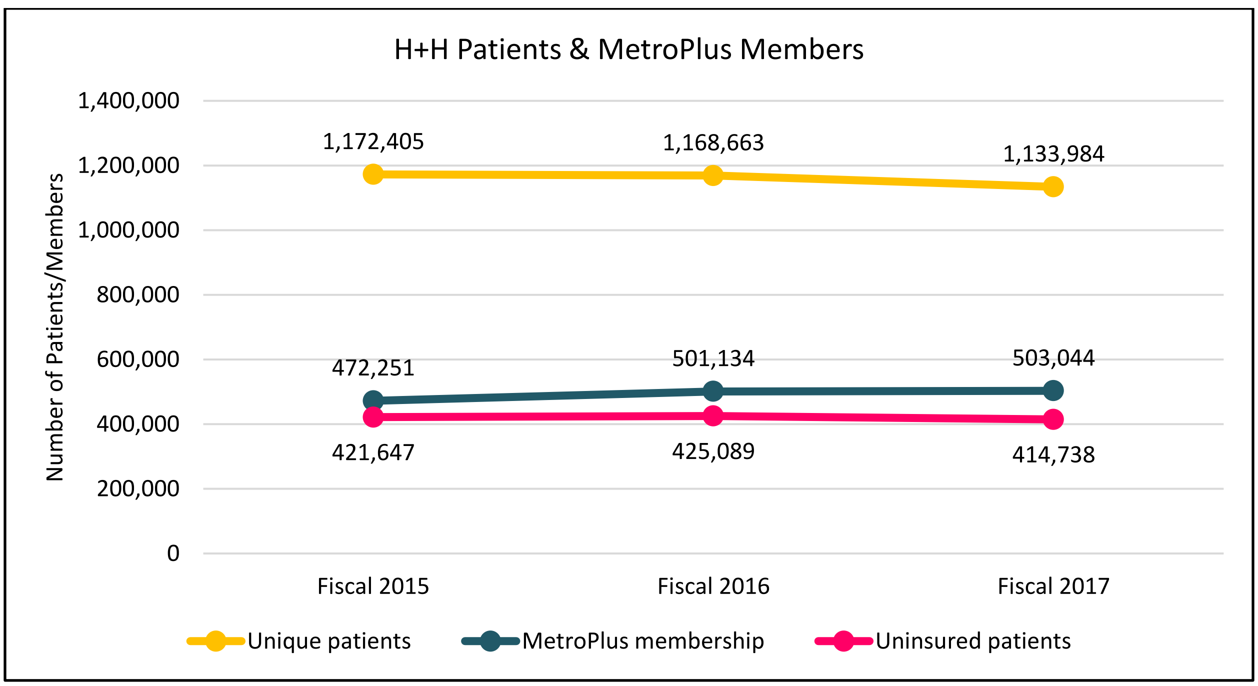
Corrective actions are also required to address the patient cycle times – the amount of time that a patient spends at an office visit – for adult medicine, pediatrics, and women's health. In the first four months of Fiscal 2018, the patient cycle time for adult medicine was 83 minutes – 23 minutes above the 60-minute target. The patient cycle time for pediatrics was 77 minutes – 17 minutes above target, and the patient cycle time for women's health was 91 minutes – 31 minutes above target.

The following chart lists H+H performance indicators related to the goal of increasing the number of patients served.

H+H Performance Indicators	Actual			Target		4-Month Actual	
	FY15	**FY16**	**FY17**	**FY18**	**FY19**	**FY17**	**FY18**
Number of unique patients	1,172,405	1,168,663	1,133,984	-	-	644,481	631,870
MetroPlus membership	472,251	501,134	503,044	-	-	503,432	504,498
Uninsured patients served	421,647	425,089	414,738	-	-	207,503	190,957
Prenatal patients retained in care through delivery (%)	87.1%	87.0%	86.1%	90.0%	90.0%	86.8%	86.8%

The number of unique patients that H+H serves continues to decline; however, H+H reports that the downward trend may be flattening. H+H provided healthcare services to 631,870 unique patients in the first four months of Fiscal 2018, a two-percent decrease when compared to the same period in Fiscal 2017. Over the last three fiscal years, the health system has also failed to retain prenatal patients in H+H care through delivery. Fiscal 2018 four-month actuals indicate an 86.8 percent retention rate – short of the 90 percent Fiscal 2018 target.

H+H served approximately 191,000 uninsured patients during the first four months of Fiscal 2018, a decrease of 16,546 patients, or eight percent, when compared to the same period in Fiscal 2017. During the same period, MetroPlus enrollment increased from 503,432 enrollees to 504,498 enrollees, a gain of less than one percent.



The following chart lists H+H performance indicators related to the goal of maximizing quality of care and patient satisfaction.

H+H Performance Indicators	Actual			Target		4-Month Actual	
	FY15	FY16	FY17	FY17	FY18	FY17	FY18
General care average length of stay (days)	5.1	5.2	5.4	4.9	4.9	5.3	5.5
Net days of revenue for accounts receivable	57.2	51.1	45.8	42.0	42.0	52.6	42.3
Inpatient satisfaction rate (%)	63.0%	62.0%	61.0%	65.0%	65.0%	60.0%	60.0%
Outpatient satisfaction rate (%)	77.6%	77.8%	81.3%	80.0%	80.0%	76.8%	81.4%

The general care average length of stay continues to grow, increasing from 5.1 days in Fiscal 2015 to 5.4 days in Fiscal 2017. The first four months of Fiscal 2018 indicate an average length of stay of 5.5 days. H+H reports that H+H facilities and other hospitals citywide are increasingly treating potentially avoidable and other low acuity hospital admissions in more appropriate ambulatory settings – resulting in an overall sicker inpatient hospital population with a greater average inpatient acuity and length of stay.

Due to H+H's revenue collections initiatives, net days of revenue for accounts receivable continues to improve, decreasing from 57.2 days in Fiscal 2015 to 45.8 days in Fiscal 2017. The first four months of Fiscal 2018 indicate 42.3 net days of revenue for accounts receivable.

While H+H's outpatient satisfaction rate continues to improve, increasing from 77.6 percent in Fiscal 2015 to 81.3 percent in Fiscal 2017, the inpatient satisfaction rate continues to decline, falling to 61 percent in Fiscal 2017 from 63 percent in Fiscal 2015. H+H exceeded its 80 percent outpatient satisfaction target in the first four months of Fiscal 2018 with a rate of 81.4 percent, but the inpatient satisfaction rate remained below the 65 percent target at 60 percent. H+H reports it has completed a redesign of its goals, short- and long-term plans, and targets in order to improve the patient and family experience at H+H facilities.

Correctional Health Services

The following chart lists H+H performance indicators related to Correctional Health Services (CHS).

H+H Performance Indicators	Actual			Target		4-Month Actual	
	FY15	FY16	FY17	FY17	FY18	FY16	FY17
Total correctional health clinical visits (includes intake exams, sick calls, follow-up, mental health & dental)	769,459	674,825	637,966	-	-	212,780	167,347
Patients with a substance abuse diagnosis in a jail-based substance abuse program (%)	10.0%	10.0%	9.0%	-	-	9.0%	13.0%

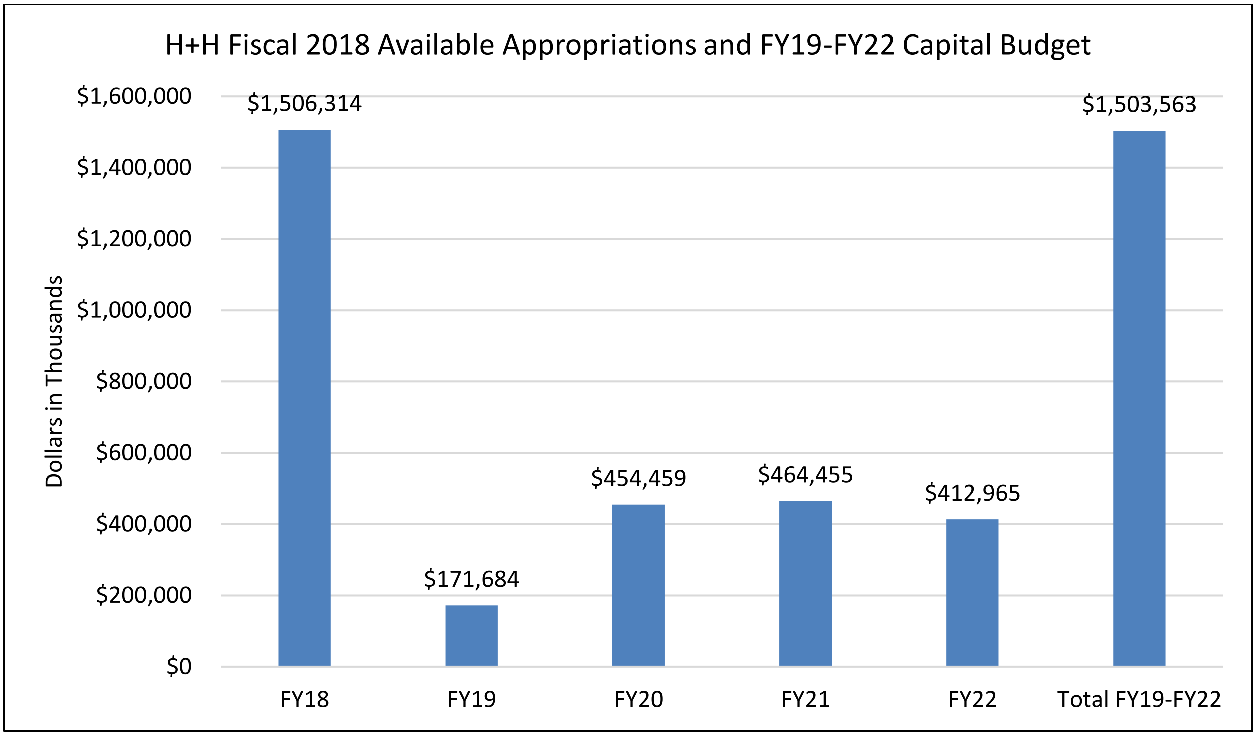
The CHS team maintains two core goals for incarcerated persons: (1) increase the quality of care and access to services while reducing the challenges to and demands on correction security staff; and (2) improve the continuity of care during and after incarceration. More than 1,000 H+H employees work in the City's jails, including 936 employees at Rikers Island and 133 employees throughout the three borough facilities. The Fiscal 2019 CHS Budget totals $216.2 million in CTL and $36.6 million in Intracity funding, for a total budget of $252.7 million.

The total number of correctional health clinical visits, including intake exams, sick calls, follow-up visits, mental health appointments, and dental visits, decreased by more than 45,000 visits, or 21 percent, in the first four months of Fiscal 2018 when compared to the same period last year. The percentage of patients with a substance abuse diagnosis who are enrolled in a jail-based substance abuse program increased by four percent In the first four months of Fiscal 2018, when compared to the same period last year, from nine percent to 13 percent.

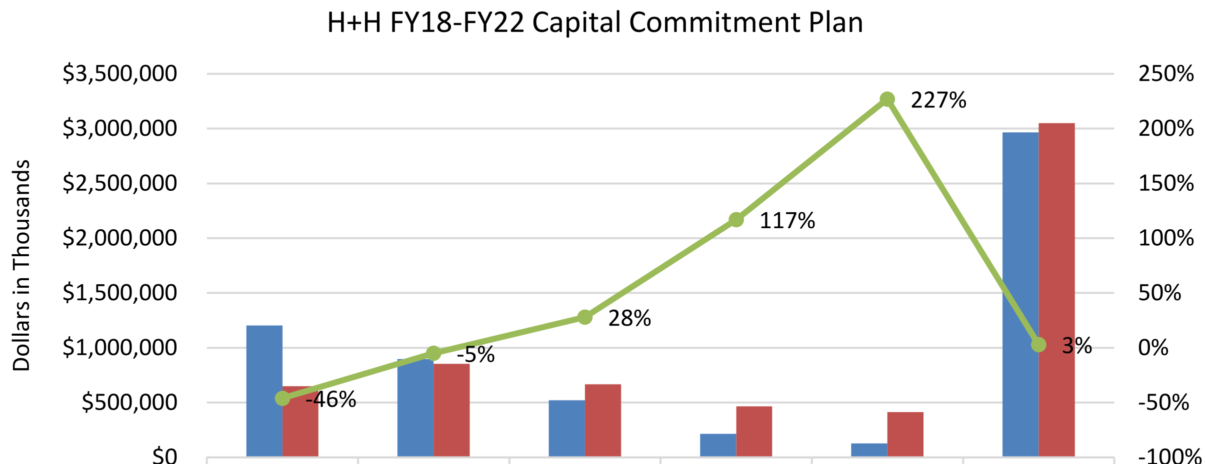
H+H Capital Budget Summary

Fiscal 2019 Preliminary Capital Budget and Commitment Plan for Fiscal 2018-2022

The Capital Budget provides the required appropriations for Fiscal 2019 as well as the planned appropriations for the subsequent three-year capital program. Appropriations represent the legal authority to spend capital dollars; the Council votes on these appropriations at budget adoption. The Commitment Plan presents the five-year plan to spend those appropriations. This report reviews the Capital Budget and Commitment plan for H+H.



As shown in the above chart, H+H's Fiscal 2019 Preliminary Capital Budget includes $1.5 billion in Fiscal 2019-2022, including $171.7 million in Fiscal 2019. H+H's funding represents approximately three percent of the City's total $45.9 billion Capital Budget for 2019-2022. H+H's available appropriations for Fiscal 2018 total $1.5 billion. This includes $738.7 million in reauthorized prior appropriations and $767.6 million in authorized appropriations – less than actual commitments in the current fiscal year.

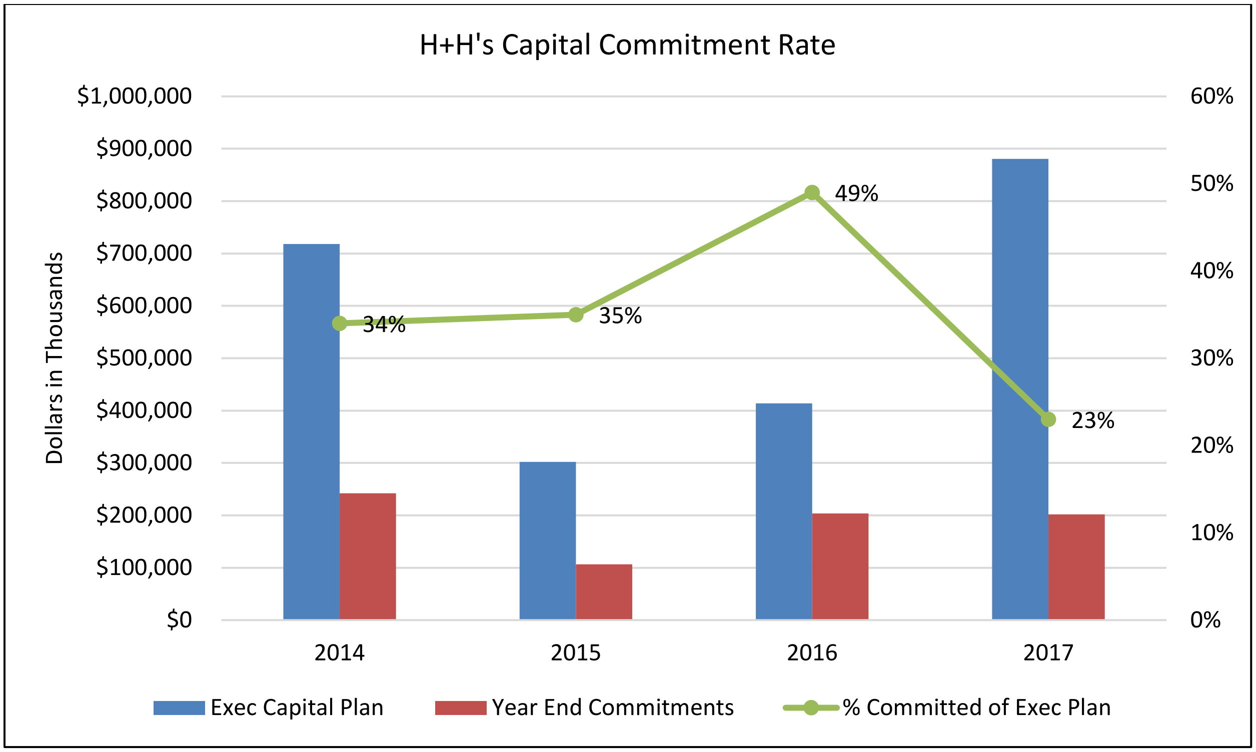


	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Total
Adopted	$1,204,823	$896,586	$522,568	$214,162	$126,314	$2,964,453
Preliminary	$650,911	$853,872	$666,856	$465,755	$412,965	$3,050,359
% Change	-46%	-5%	28%	117%	227%	3%

H+H's Preliminary Commitment Plan includes $3.1 billion in Fiscal 2018-2022. This represents approximately four percent of the City's total $79.6 billion Preliminary Commitment Plan. The Capital Budget (outlined in the first chart) is significantly less than the Capital Commitment Plan because, unlike the Capital Commitment Plan, the Capital Budget does not include the current appropriations for Fiscal 2018 or the funding that the City rolls/re-appropriates into the Fiscal 2019 Executive and Adopted Budgets.

H+H groups its capital projects into two broad categories: (1) hospital improvements and (2) equipment purchases. Equipment purchases comprise about seven percent of H+H's plan at $208.3 million, and improvements to hospital facilities, including construction, comprise the remaining 93 percent at $2.8 billion. H+H's Fiscal 2018-2022 Preliminary Capital Plan increased by $85.9 million to $3.1 billion, an increase of approximately three percent when compared to H+H's Adopted Commitment Plan of $3 billion.

H+H's available appropriations for Fiscal 2018 total $1.5 billion, while H+H's planned commitments for Fiscal 2018 total $650.9 million. This excess balance of $855.1 million in appropriations provides the Administration with considerable flexibility. However, the appropriations are legally bound to their budget line descriptions, so the capital plan does not allow for as much flexibility as the variance suggests.



The above chart displays H+H's capital commitment plan as of the Fiscal 2014-2017 Executive Budgets and the actual commitments in the corresponding fiscal year. The chart also shows the capital commitment rate: the percentage of the capital plan committed per fiscal year. The City maintains an agency-wide capital commitment rate of 56 percent, but H+H's commitment rate falls below this average.

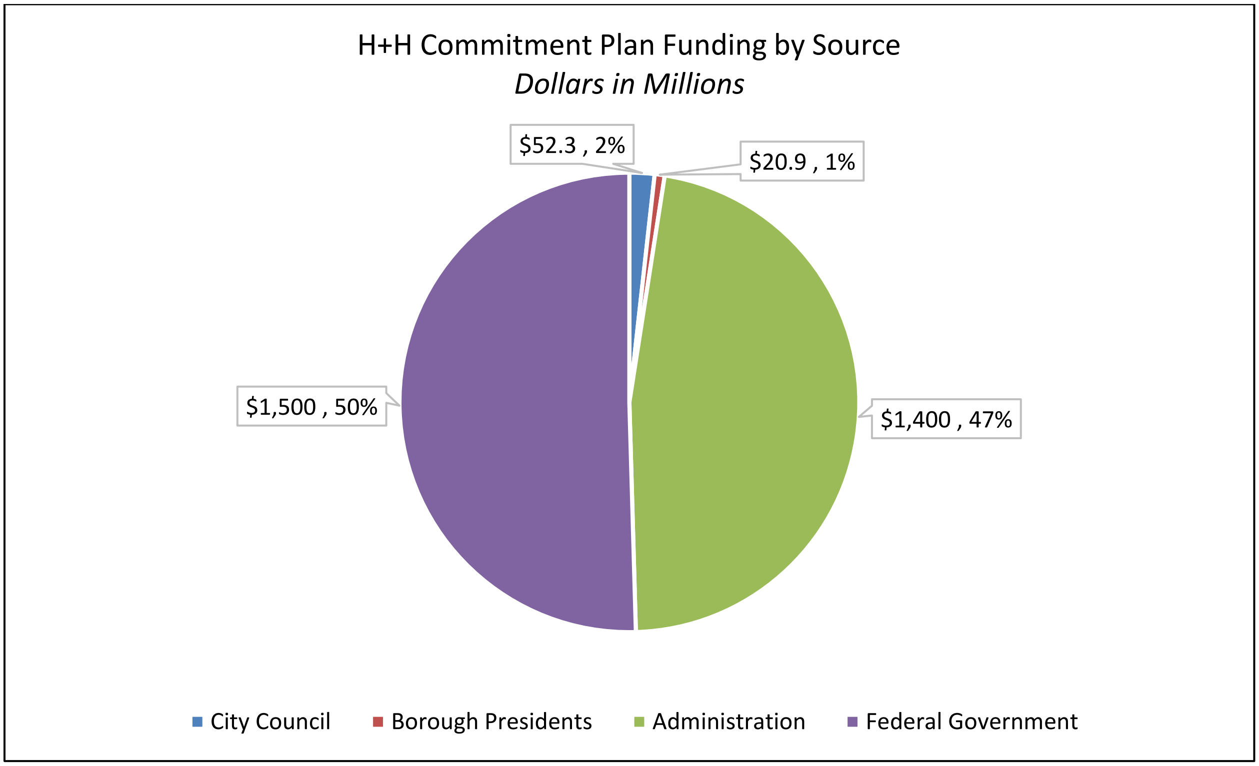
The Commitment Plan typically frontloads planned commitments for capital projects in the first year or two of the plan, and agencies rarely meet these targets. H+H only committed 34 percent of the funding it appropriated in 2014. In 2015, H+H committed 35 percent of its commitment plan for that year, and in 2016, it committed 49 percent of its plan. In 2017, H+H committed just 23 percent of the funding it had planned in its Executive Capital Plan. Given this performance history, H+H will likely end this year with unmet commitment targets and significant appropriations to roll into Fiscal 2019 and the outyears.

H+H's Commitment Plan Funding

The City Council funds $52.3 million, or about two percent, of H+H's $3.1 billion Commitment Plan. Some of the largest Council-funded capital project include $4.3 million to renovate the adult emergency room at Elmhurst Hospital Center, $2.7 million to purchase and install a computed tomography (CT) scanner at North Central Bronx Hospital, and $1.9 million to establish a comprehensive LGBT family health center at Metropolitan Health Center. Borough presidents contribute $20.9 million, or less than one percent, of the Plan, including $4.2 million to establish a burn unit at Woodhull Hospital, $2.5 million to renovate and expand the Queens Hospital Center pharmacy, and $500,000 to purchase 3D breast tomography at Lincoln Hospital.

The Administration provides approximately 47 percent, or $1.4 billion, of H+H's capital funding, and the federal government provides about 49 percent at $1.5 billion. In addition to $280.2

million in Fiscal 2018, the federal government provides $238.8 million in Fiscal 2019, $347.7 million in Fiscals 2020 and 2021, and $318.7 million in Fiscal 2022 to help 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 total, the Plan includes approximately $1.8 billion for Hurricane Sandy-related projects. 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. The largest project in H+H's Plan totals $949.2 million and funds the design and management of the Coney Island campus.

Other major projects in H+H's Preliminary Commitment Plan for Fiscal 2018-2022 include:

- **FDNY EMS Ambulances.** The Preliminary Plan includes $193.3 million to purchase and outfit ambulances for the New York City Fire Department Bureau of Emergency Medical Services (FDNY EMS), including $25 million in Fiscal 2019. A 1996 memorandum of understanding (MOU) requires the FDNY to operate and maintain the City's active fleet of approximately 620 ambulances. The City provides the capital funding to H+H to make the purchase on behalf of the FDNY.
- **EMR System Upgrades.** The Preliminary Plan includes $190 million to upgrade the H+H Epic electronic medical record (EMR) system and to purchase new EMR equipment, including $81.3 million in Fiscal 2019. The Epic GO system utilizes digital versions of paper charts that contain patients' medical histories. H+H successfully upgraded to the most current version of Epic in December 2017. The upgrade simplified the user experience

and improved workflows for physicians, nurses, and other care providers. It also incorporated needed revenue cycle functionality for the deployment of the enterprise Epic solution.

The Preliminary Plan also includes $150.4 million to implement new, advanced revenue cycle technology designed to maximize the amount of revenue H+H collects for the services it delivers. H+H projects the new Epic revenue cycle product – set to go live at the first wave of facilities in November 2018 – will help the health system capture an additional five percent of adjusted patient revenue.

The team has completed the design and validation of the software and has finished more than 80 percent of the revenue cycle functionality. The team completed the workflow build/adoption in February 2018 and is currently focusing on building the content. Testing will take place in March, followed by training in September for the first wave of facilities to go live (Coney Island, Queens, Elmhurst retro-fit) and (Woodhull and Cumberland Diagnosis & Treatment Center).

- **Primary Care Facility Expansion.** The Preliminary Plan includes $106.2 million to expand H+H primary care facilities, including $33 million in Fiscal 2019, in order to increase access to community-based healthcare services, improve health outcomes, and stabilize the H+H financial system. H+H is working with the Administration to determine the most reasonable uses for the funding and anticipates announcing next steps in 2018. The expansion initiative is still in the planning phase, with $63.2 million slated for Fiscal 2020.

Appendices

A: Budget Actions in the November and the Preliminary Plans

	FY 2018			FY 2019		
Dollars in Thousands	City	Non-City	Total	City	Non-City	Total
H+H Budget as of the Fiscal 2018 Adopted Budget	**$485,549**	**$92,969**	**$578,518**	**$804,664**	**$92,513**	**$897,177**
New Needs						
Correctional Health: Pre-Arraignment	$657	$0	$657	$3,870	$0	$3,870
Correctional Health: Women in Rikers	206	0	206	1,238	0	1,238
Expansion of Forensic Clinic Capacity	281	0	281	954	0	954
NYC Unity Project: Physician Training	86	0	86	79	0	79
Subtotal, New Needs	**$1,230**	**$0**	**$1,230**	**$6,141**	**$0**	**$6,141**
Fiscal 2018 November Plan	**($1,135)**	**$19,768**	**$18,633**	**$825**	**$0**	**$825**
Other Adjustments						
Forensic Clinic Transfer	$1,506	($1,506)	$0	1,506	(1,506)	$0
Naloxone	255	959	1,214	511	0	511
Correctional Health: Modular Trailer	1,607	0	1,607	0	0	0
Intracity, Winston Temp	0	1,349	1,349	0	0	0
Intracity, Pharmaceuticals	0	822	822	0	0	0
Intracity, Harlem Hospital	0	245	245	0	0	0
Intracity, Grants	0	355	355	0	0	0
Urban Areas Security Initiative	0	1,506	1,506	0	166	166
H+H System Wide Generator	0	739	739	0	0	0
Coney, Federal	0	2,138	2,138	0	0	0
ExCEL Program	0	470	470	0	0	0
H+H Crash Carts	0	34	34	0	0	0
Collective Bargaining Transfer	4	0	4	6	0	6
Subtotal, Other Adjustments	**$2,238**	**$26,878**	**$29,115**	**$2,848**	**($1,340)**	**$1,508**
TOTAL, All Changes	**$3,468**	**$26,878**	**$30,345**	**$8,989**	**($1,340)**	**$7,649**
H+H Budget as of Fiscal 2019 Preliminary Budget	**$489,017**	**$119,847**	**$608,864**	**$813,653**	**$91,173**	**$904,826**

B: Fiscal 2019 Preliminary Plan Other Revenue by Funding Source

Dollars in Thousands

PROGRAM	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022
Correctional Health	$215,294	$221,773	$227,468	$228,547	$228,547
Subsidy	239,793	264,351	362,862	262,246	262,246
Collective Bargaining	4	292,510	292,764	292,766	292,767
CHS Forensic Clinic	1,787	2,461	2,293	2,293	2,293
Medical Malpractice Transfer	17,277	17,277	17,277	17,277	17,277
DOI	8,635	8,635	8,635	8,635	8,635
DCAS Rental Subsidy	3,056	3,056	3,056	3,056	3,056
SART	1,272	1,272	1,272	1,272	1,272
CITY FUNDING TOTAL	**$487,119**	**$811,334**	**$915,627**	**$816,093**	**$816,093**
DOHMH: Mental Health	$40,011	$38,961	$38,961	$38,961	$38,961
DOHMH: Physical Health	18,390	2,351	2,351	2,351	2,351
Correctional Health	39,144	36,592	36,592	36,592	36,592
ACS	6,795	6,795	6,795	6,795	6,795
HRA and NYPD	7,183	6,224	6,224	6,224	6,224
DCAS Energy Staff	723	0	0	0	0
Community Board Leases	85	85	85	85	85
Office of Emergency Management	34	0	0	0	0
INTRA-CITY FUNDING TOTAL	**$112,365**	**$91,007**	**$91,007**	**$91,007**	**$91,007**
Office of Emergency Management	$16	$0	$0	$0	$0
UASI- Homeland Security FFY15	1,406	0	0	0	0
UASI- Homeland Security FFY17	100	166	166	0	0
FEMA- Hurricane Sandy	5,540	0	0	0	0
FEDERAL FUNDING TOTAL	**$7,062**	**$166**	**$166**	**$0**	**$0**
DOI	$862	$862	$862	$862	$862
Law Department	532	532	532	532	532
Comptroller's Office	213	213	213	213	213
DCAS Inspectors/ Public Service	212	213	213	213	213
DCAS Exams	378	378	378	378	378
DOITT: Telephone & Comm	121	121	121	121	121
CITY (NON-CASH) TOTAL	**$2,318**	**$2,319**	**$2,319**	**$2,319**	**$2,319**
TOTAL	**$608,863**	**$904,826**	**$1,009,119**	**$909,419**	**$909,419**