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Report on the Fiscal Year 2015 Executive Budget for the

New York City Health and Hospitals Corporation

May 27, 2014

Executive Budget Highlights

- **Total Expense Budget.** The Health and Hospitals Corporation's (HHC) budget for Fiscal 2015 totals \$6.9 billion.
 - \$179 million, or less than three percent, is City Tax-Levy (CTL) and Intra-city funding.
- **Projected Operating Deficit.** The Executive Budget for Fiscal 2015 shows a projected operating deficit of \$204 million, down by \$224 million from the 2015 Preliminary Budget. This net change is due to an increase of \$272 million in receipts, offset by an increase of \$47 million in disbursements.
 - Third party receipts, projected at \$5.9 billion for Fiscal 2015, increased by \$258 million from the Fiscal 2015 Preliminary Budget, driven primarily by readjustments and the rolling over of receipts from Fiscal 2014 to Fiscal 2015.
 - Projected disbursements in Fiscal 2015 have increased by a net of \$47.4 million since the Fiscal 2015 Preliminary Plan, due largely to readjustments and re-estimates.
- **Closing Cash Balance.** As a result of changes in the Executive Budget, HHC anticipates a Fiscal 2015 closing cash balance of \$804 million, down by \$200 million from the Preliminary Plan.
- **Capital Plan.** HHC's May 2014 Capital Commitment Plan includes \$1.27 billion in Fiscal 2014-2018. Highlights include:
 - **Gouverneur Healthcare.** The Corporation has committed \$9.1 million for major modernization at the Gouverneur Health Services in lower Manhattan.
 - **Emergency Medical Specialist (EMS) Ambulances.** The Corporation's four-year capital plan includes \$48.6 million for the purchase of EMS ambulances for the FDNY.
 - **Electronic Health Records.** The Corporation's four-year capital plan includes \$128.1 million for Electronic Health Records across the HHC system.

Health and Hospitals Corporation Overview

This report provides an overview of the Fiscal 2015 Budget for the Health and Hospitals Corporation (HHC), a review of the significant actions included in the Executive Budget and a summary of the Corporation's Capital Budget for Fiscal 2014-2018. HHC's budget for Fiscal 2015 is \$6.9 billion, most of which supports personal services (PS) spending. The changes to HHC's Fiscal 2014 and Fiscal 2015 budgets proposed in the November and Preliminary Financial Plans are listed in Appendix 2. For additional information on the Corporation's Budget and its various programs, please refer to the "HHC Fiscal 2015 Preliminary Report" available at the Council's website.

Financial Plan Summary

New York City Health & Hospitals Corporation 2015 Executive Budget (in millions)

	Actuals 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018
RECEIPTS						
Third Party Receipts						
Medicaid Fee for Service	\$1,005	\$916	\$801	\$690	\$646	\$626
Medicaid Managed Care	1,086	1,220	1,345	1,454	1,475	1,519
Supplemental Medicaid	2,064	2,794	2,361	2,083	2,059	1,825
<i>Disproportionate Share (DSH)</i>	<u>1,791</u>	<u>1,779</u>	<u>894</u>	<u>1,367</u>	<u>1,227</u>	<u>1,097</u>
City		844	397	632	640	649
State		45	50	51	53	53
Federal		890	447	683	535	396
<i>Other Supplemental Medicaid</i>	<u>273</u>	<u>1,015</u>	<u>1,467</u>	<u>717</u>	<u>831</u>	<u>729</u>
City		500	751	391	473	441
State	-	7	7	7	7	7
Federal		507	709	319	350	280
Medicare Fee for Service	534	632	585	493	469	474
Medicare Advantage	354	363	416	385	382	384
Fully Integrated Duals Advantage (FIDA)	-	-	17	85	110	111
Commercial/Other Managed Care Assessments	346	358	379	389	395	402
	(19)	(19)	(19)	(19)	(19)	(19)
<i>Subtotal: Third Party Receipts</i>	\$5,371	\$6,265	\$5,885	\$5,561	\$5,516	\$5,323
City Services	\$204	\$209	\$179	\$179	\$179	\$179
Grants	\$176	\$184	\$193	\$96	\$96	\$96
FEMA Related Grants	62	186	66	-	-	-
FDNY/EMS	169	153	219	200	199	199
Other/Miscellaneous Receipts	208	188	186	189	192	194
<i>Subtotal: Grants & Other</i>	\$615	\$711	\$664	\$485	\$487	\$490
TOTAL RECEIPTS	\$6,189	\$7,185	\$6,729	\$6,225	\$6,183	\$5,992

	Actuals 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Projected 2018
DISBURSEMENTS						
Personal Services	\$2,488	\$2,490	\$2,522	\$2,554	\$2,675	\$2,618
Fringe Benefits	1,213	1,397	1,346	1,389	1,441	1,485
Other Than Personal Services	1,442	1,755	1,728	1,749	1,792	1,819
Malpractice	114	237	136	136	136	136
Affiliations	925	915	958	990	1,020	1,051
Other City Services and Charges	1	1	1	1	1	1
<i>Subtotal: Disbursements</i>	6,183	6,795	6,691	6,819	7,066	7,110
HHC Debt Service - 93A Bonds						
HHC Debt Service	96	77	83	84	85	85
City Debt Service	-	313	158	155	166	161
<i>Subtotal: Debt Service</i>	\$96	\$389	\$241	\$239	\$252	\$246
TOTAL DISBURSEMENTS	\$6,279	\$7,185	\$6,932	\$7,059	\$7,317	\$7,356
Operating Receipts Over/(Under)	(90)	0	(204)	(834)	(1,134)	(1,365)
Capital Receipts Over/(Under)	(48)	(11)	5	3	35	5
Corrective Actions						
HHC Savings Initiatives/Cost	-	-	11	11	11	11
Restructuring	-	-	79	75	72	72
Additional HHC Actions	-	-	200	300	350	400
State and Federal Actions/Other	-	-	400	400	400	400
<i>Subtotal: Corrective Actions</i>	-	-	\$690	\$786	\$833	\$883
<i>Opening Cash Balance</i>	\$461	\$323	\$313	\$804	\$760	\$493
Closing Cash Balance	\$323	\$313	\$804	\$760	\$493	\$17

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New in the Executive Budget

HHC's projected operating deficit for Fiscal 2015 decreased by \$224 million to \$204 million, as compared to the projected deficit of \$428 million in the Fiscal 2014 Preliminary Budget. This net change is due to an increase of \$272 million in receipts, offset by an increase of \$47 million in disbursements. Major adjustments in the Executive Plan are outlined below.

- Third party receipts, which comprise 87 percent of the HHC's total operating revenues for Fiscal 2015, are projected at \$5.9 billion for Fiscal 2015. This is an increase of \$258 million from the Fiscal 2015 Preliminary Budget, driven primarily by readjustments and the rolling over of receipts from Fiscal 2014 to Fiscal 2015.
- Projected disbursements in Fiscal 2015 have increased by a net of \$47.4 million since the Preliminary Plan, due largely to readjustments and re-estimates.

Executive Budget Highlights

Projected Operating Deficit (Fiscal 2014 through Fiscal 2018)

According to its Fiscal 2015 Executive Financial Plan, HHC anticipates a Fiscal 2015 operating loss of \$204 million, reduced by \$224 million from the Fiscal 2015 Preliminary Financial Plan. Based on current conditions, this deficit is projected to grow to \$1.4 billion by Fiscal 2018. These substantial deficits are a function of the Corporation's declining revenue that falls short of supporting the Corporation's growing needs. More importantly, as a result of changes in the Executive Budget, HHC anticipates a Fiscal 2015 closing cash balance of \$804 million, down by \$200 million from the Preliminary Plan.

Receipts Highlights

The Fiscal 2015 total revenues (or receipts) to HHC will decline by \$456 million, or 6.4 percent, from Fiscal 2014 revenues of \$7.2 billion. Third party receipts, which comprise 87 percent of the HHC's total operating revenues for Fiscal 2015, increase by \$258 million from the Fiscal 2015 Preliminary Budget. This increase is driven primarily by readjustments and the rolling over of receipts from Fiscal 2014 to Fiscal 2015. The Executive Plan contains several adjustments of receipts since the Preliminary Plan which are outlined below.

- **Other Supplemental Medicaid.** The Executive Budget reflects an increase of \$717 million in Fiscal 2015 for other supplemental Medicaid receipts due largely to the delay of outpatient Upper Payment Limit (\$612 million) from Fiscal 2014 to Fiscal 2015. This increase is also driven by an enhancement (\$75 million) to Metro Plus, HHC's health insurance plan. This increase includes \$56 million rolled from Fiscal 2014 to Fiscal 2015 and an additional quarter of the \$75 million base (\$19 million) that was not included in the Preliminary Plan. The Upper Payment Limit (UPL) is a federal limit placed on fee-for-service reimbursement of Medicaid providers.
- **Disproportionate Share Hospital (DSH) Funding.** The Executive Budget reflects a decrease of \$455 million in DSH funding from the State in Fiscal 2015 since Preliminary Plan. This reduction is driven by the advancement of DSH funding from Fiscal 2015 to Fiscal 2014 in recognition of State's delay in payment from outpatient upper payment limit. In addition, the Executive Budget includes the delay of DSH funding cuts in Fiscal 2016 and Fiscal 2017.
- **Medicaid Fee for Service.** The Executive Budget reflects a decrease of \$17.6 million in Fiscal 2015 attributable to a two percent reduction from the Fiscal 2013 base. This two percent reduction is in recognition of HHC's current workload.

Disbursements Highlights

HHC expects total operating expenses to grow from \$7.2 billion in Fiscal 2014 to \$7.4 billion by Fiscal 2018, an increase of nearly \$172 million, or approximately three percent. Projected disbursements in Fiscal 2015 have increased by a net of \$47.4 million since Preliminary Plan. This increase is due largely to readjustments and re-estimates. Outlined below are several changes in disbursements since the Preliminary Plan.

- **Other than Personal Services.** The Executive Budget reflects an increase of \$78.3 million for OTPS disbursement in Fiscal 2015. This increase is a result of cost increases in Metro Plus, as well as other technical adjustments.

- **Fringe Benefits.** The Executive Budget reflects a decrease in \$45 million in fringe benefits for Fiscal 2015. This decrease is due largely to temporary savings in pension. These temporary savings are expected to increase due to outstanding labor settlements.
- **Debt Services/Affiliation.** The Executive Budget reflects slight increases in City debt services (\$6.5 million) and affiliations (\$7.4 million) in Fiscal 2015, a result of re-estimate in general obligation bonds and reduction to estimated physician upper payment limit, respectively.

Medicaid Waiver

On April 14, 2014, Governor Andrew M. Cuomo announced that New York finalized the terms and conditions with the Centers for Medicare and Medicaid Services (CMS) on the Medicaid waiver, which allows the state to reinvest over a five-year period \$8 billion in federal savings generated by Medicaid Redesign Team (MRT) reforms. This formal authorization allows the creation of a Delivery System Reform Incentive Payment (DSRIP) plan.

The \$8 billion reinvestment will be allocated in the following ways:

- **\$6.42 billion** for **Delivery System Reform Incentive Payments (DSRIP)** which includes DSRIP Planning Grants, DSRIP Provider Incentive Payments, and DSRIP Administrative costs.
- **\$1.08 billion** for other **Medicaid Redesign purposes** that will support Health Home development, and investments in long term care, workforce and enhanced behavioral health services.
- **\$500 million** for the **Interim Access Assurance Fund (IAAF)** which is temporary, time limited funding intended to bridge safety net providers at risk of closure until the implementation of the DSRIP. This funding is split into two pools, \$250 million for safety net hospitals and \$250 million for large public hospitals.

Delivery System Reform Incentive Payments (DSRIP)

The DSRIP program aims to promote community-level collaborations and focus on system reform, specifically the goal to achieve a 25 percent reduction in avoidable hospital use over five years. Safety net providers will be required to collaborate and implement innovative projects focusing on system transformation, clinical improvement and population health improvement.

- All DSRIP funds will be based on performance linked to achievement of project milestones.
 - Non-binding Performing Provider System Letter of Intent was due on May 15, 2014.
 - Applications for DSRIP are due June 17, 2014.
- The Interim Access Assurance Fund (IAAF), part of the DSRIP, is a short-term grant program to assist safety net hospitals, currently in severe financial hardships, as they participate with other providers to develop proposals to be funded and implemented under the DSRIP.
 - Applications for IAAF funds are due May 30, 2014, by 3:00 p.m.

HHC Capital Program

The Executive 2015 Capital Commitment Plan includes \$1.27 billion in Fiscal 2014-2018 for the Health and Hospitals Corporation (including City and Non-City funds). This represents approximately less than one percent of the City's total \$48.9 billion Executive Plan for Fiscal 2014-2018. The agency's Executive Commitment Plan for Fiscal 2014-2018 is less than one percent higher than the \$1.26 billion scheduled in the Preliminary Commitment Plan, an increase of \$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 2013, the HHC committed \$308 million or about 37 percent of its annual capital plan. Therefore, it is assumed that a significant portion of the agency's Fiscal 2014 Capital Plan will be rolled into Fiscal 2015, increasing the size of the Fiscal 2015-2018 Capital Plan as reflected in the chart below.

Since adoption last June, the City-wide total Capital Commitment Plan for Fiscal 2014 has decreased from \$20.9 billion in the Adopted Capital Commitment Plan to \$14.2 billion in the Executive Capital Commitment Plan, a decrease of \$6.7 billion or 32.1 percent.

HHC 2014-2018 Capital Commitment Plan

<i>Dollars in Thousands</i>	FY14	FY15	FY16	FY17	FY18	Total
Executive Plan	\$718,472	\$413,396	\$69,441	\$34,509	\$34,262	\$1,270,080
Preliminary Plan	\$1,067,002	\$77,978	\$55,328	\$34,509	\$34,262	\$1,269,079
Change	(\$348,530)	\$335,418	\$14,113	\$0	\$0	\$1,001
Percentage Change	-32.7%	430.1%	25.5%	0.00%	0.00%	0.08%

Major Capital Projects & Executive Budget Highlights

- **Gouverneur Healthcare.** The Corporation has committed \$9.1 million for major modernization at the Gouverneur Health Services in lower Manhattan. HHC is completing the second phase of this modernization, which includes a renovated, state-of-the-art skilled nursing facility with additional 85 beds. The project is slated to be completed in Spring 2014.
- **Emergency Medical Specialist (EMS) Ambulances.** The Corporation's four-year capital plan includes \$48.6 million for the purchase of EMS ambulances for the FDNY.
- **Electronic Health Records.** The Corporation's four-year capital plan includes \$128.1 million for Electronic Health Records across the HHC system.

Appendix 1: HHC Fiscal 2015 Executive Budget Actions

<i>Dollars in Thousands</i>	FY 2014			FY 2015		
	City	Non-City	Total	City	Non-City	Total
HHC Budget as of Preliminary 2015 Plan	\$77,853	\$299,611	\$377,464	\$81,074	\$100,350	\$181,424
Other Adjustments						
CDBG-DR Tranch 1 Accrued	\$0	(\$183,000)	(\$183,000)	\$0	\$0	\$0
I/C w HHC - Hep B Vaccine	0	10	10	0	0	0
I/C w HHC	0	250	250	0	250	250
I/C w HHC - Winston Temps	0	251	251	0	0	0
I/C w HHC - Correctional Health	0	2,269	2,269	0	0	0
I/C w HHC - Harlem Hospital	0	272	272	0	0	0
I/C w/ HHC - Stop DWI	0	49	49	0	0	0
I/C w/ HHC - AOT	0	(1,196)	(1,196)	0	(2,510)	(2,510)
plANYC_Excel Program	0	125	125	0	0	0
UASI FY 2013	0	619	619	0	0	0
Young Men's Initiative	0	0	0	(30)	0	(30)
Subtotal Other Adjustments	\$0	(\$180,351)	(\$180,351)	(\$30)	(\$2,260)	(\$2,290)
Total All Changes	\$0	(\$180,351)	(\$180,351)	(\$30)	(\$2,260)	(\$2,290)
HHC Executive Fiscal 2015 Budget	\$77,853	\$119,259	\$197,112	\$81,044	\$98,089	\$179,133

Appendix 2: HHC Budget Actions since Fiscal 2014 Adoption

<i>Dollars in Thousands</i>	FY 2014			FY 2015		
	City	Non-City	Total	City	Non-City	Total
HHC Budget as of Adopted 2014 Plan	\$80,118	\$109,262	\$189,380	\$68,607	\$106,260	\$174,867
Program to Eliminate the Gap (PEGs) Restorations						
Mental Hygiene Intra-City with HHC	\$0	\$248	248	\$0	\$248	\$248
Total PEGs	\$0	\$248	\$248	\$0	\$248	\$248
Other Adjustments						
14 HHC10489	\$0	\$26	\$26	\$0	\$0	\$0
CDBG-DR Tranch 1 Accrued	0	(183,000)	(183,000)	0	0	0
CDBG-DR Tranche	0	183,000	183,000	0	0	0
Child Health Clinic Restoration	0	0	0	5,000	0	5,000
FEMA PW3208	0	1,589	1,589	0	0	0
FY14 HHC I/C	0	114	114	0	0	0
FY14 HHC Toilet Seats	0	52	52	0	0	0
FY14 Homeland Security	0	270	270	0	0	0
FY14 IC Family Court Clinic	0	930	930	0	0	0
HHC - SADS Program	0	95	95	0	0	0
HHC Civic Center Transfer	313	0	313	0	0	0
HHC CTL Takedown for IC	(2,578)	0	(2,578)	0	0	0
HHC DOHMH Transfer	0	4,028	4,028	0	0	0
IC - AOT	0	(1,860)	(1,860)	0	(3,228)	(3,228)
IC - MLSP Program	0	13	13	0	0	0
IC w/ HHC	0	250	250	0	250	250
IC w/ HHC - Asthma Counselors	0	82	82	0	0	0
IC w/ HHC - Bellevue Hospital	0	154	154	0	0	0
IC w/ HHC - Case Management Prog.	0	150	150	0	150	150
IC w/ HHC - Correctional Health	0	1,723	1,723	0	(5,516)	(5,516)
IC w/ HHC - Harlem Hospital	0	528	528	0	0	0
IC w/ HHC - Hep B Vaccine	0	10	10	0	0	0
IC w/ HHC - Prophylaxis Contract	0	2	2	0	0	0
IC w/ HHC - Queens Hospital	0	221	221	0	0	0
IC w/ HHC - Stop DWI	0	49	49	0	0	0
IC w/ HHC - Winston Temps	0	311	311	0	0	0
plaNYC funds - HHC	0	75	75	0	0	0
plaNYC_Excel Program	0	125	125	0	0	0
Reduction to MICA Program	0	(74)	(74)	0	(74)	(74)
Restore Developmental Evaluation Clinics	0	0	0	1,467	0	1,467
Restore HHC's Unrestricted City Subsidy	0	0	0	6,000	0	6,000
UASI FY 2013	0	619	619	0	0	0
UASIFY2014	0	270	270	0	0	0
Young Men's Initiative	0	0	0	(30)	0	(30)
Total Other Adjustments	(\$2,265)	\$9,749	\$7,484	\$12,437	(\$8,419)	\$4,018
Total All Changes	(\$2,265)	\$9,997	\$7,732	\$12,437	(\$8,171)	\$4,266
HHC Executive Fiscal 2015 Budget	\$77,853	\$119,259	\$197,112	\$81,044	\$98,089	\$179,133