



Testimony of the

Healthcare Association of New York State

before the

Assembly Standing Committee on Ways and Means

on

**Executive Proposal to Reduce the Estimated Budget
Deficit for the 2009-2010 State Fiscal Year**

October 21, 2009

Committee Chair
Assemblyman Herman D. Farrell, Jr.

Chairman Farrell, members of the Assembly Committee on Ways and Means, thank you for the opportunity to address you today concerning Governor Paterson's Deficit Reduction Proposal (DRP) of October 2009. I am Daniel Sisto, President of the Healthcare Association of New York State, which represents more than 550 hospitals, nursing homes, and home health care organizations throughout the state.

Although we are beginning to see signs of recovery, the economic crisis gripping the nation continues to present enormous challenges for all of us. From the beginning of this fiscal problem, we have advocated that an equitable, shared sacrifice among all sectors of state spending is the most effective and least painful way to overcome these daunting challenges.

Unfortunately, we have not even come close to an equitable, shared approach to sacrifice. The Governor's current DRP is the fifth state budget action in just 18 months to contain significant, disproportionate cuts to health care.

In his DRP, the Governor proposes Medicaid fee-for-service payment reductions of 10% for the period November 15, 2009 through March 31, 2010. On April 1, 2010, the beginning of the next state fiscal year (SFY), and going forward, the annualized value of this permanent payment cut would be 3.7%. The state has identified state savings of \$287 million for the current SFY and in each fiscal year thereafter, of which \$256 million is related to hospitals and long-term care providers.

However, including the federal Medicaid match, the hospital and long-term care provider impact of Medicaid fee-for-service payment cuts is approximately \$667 million for the current fiscal year and each fiscal year thereafter. For the rest of the current SFY and the entire next SFY (the 16½-month period from November 15, 2009 through March 31, 2011), the hospital and long-term care provider impact would be about \$1.3 billion in Medicaid fee-for-service payment cuts. Over-and-above the impact on fee-for-service payments is the indirect impact on Medicaid managed care payments (when such contracts are linked to fee-for-service rates) and Workers' Compensation/No-Fault payments.

ESTIMATED HOSPITAL AND CONTINUING CARE IMPACT (November 15, 2009 through March 31, 2010 and Each Year Thereafter)			
Provider Type	State Savings (Medicaid FFS)	Direct Provider Impact From Medicaid FFS Cuts (including federal share)	Additional Indirect Impact: Medicaid Managed Care, No- Fault, and Workers' Compensation
Hospital Inpatient and Outpatient	\$89,100,000	\$232,000,000	\$102,100,000
Nursing Homes	\$94,900,000	\$247,100,000	--
Other Continuing Care (home care, managed long-term care, assisted living)	\$72,300,000	\$188,200,000	--
TOTAL (11/15/09-3/31/10)	\$256,300,000	\$667,300,000	\$102,100,000
TOTAL IMPACT OVER 16½ MONTHS	\$512,600,000	\$1,334,600,000	\$204,200,000

The four most recent budget actions alone, enacted in just the last 18 months, have resulted in annualized cuts totaling \$1.7 billion for health care providers. This latest DRP would increase those cuts to a staggering \$2 billion each year. No other sector of spending has been subject to cuts approaching this magnitude.

The human costs of these funding reductions will be substantial in each of your home districts, and they have already begun to accrue. A recent survey of our member hospitals revealed some disturbing findings:

- Nearly 25% of hospitals have eliminated or reduced critical health services including cancer treatment, surgeries, autism clinics, and psychiatric care.
- Eighteen percent (18%) have reported layoffs resulting in thousands of jobs lost in one of the only stable sectors of our economy.
- More than 75% reported the delay, postponement, or cancellation of capital projects such as emergency room expansions and critical diagnostic services.

Moreover, the weak economy is resulting in significant increases in demand for health care services among the uninsured. Our survey found:

- Fifty-nine percent (59%) of hospitals reported an increase in bad debt and charity care patients who cannot pay for their care.
- Sixty-two (62%) reported increased requests for financial aid.
- Fifty-two percent (52%) reported an increase in the number of uninsured patients.

These trends make it clear that hospital resources are being eroded even further from outside pressures, exacerbated by repeated state budget cuts. It is an unsustainable model.

The impact on hospital operating and bottom line margins has been no less traumatic. The most recent available full-year financial data indicate that hospital operating margins have plummeted from a meager 1.65% in 2007 to (negative) -0.9% in 2008. Bottom-line margins fell even more precipitously to (negative) -6.22% in 2008.

Both Moody's and Standard & Poor's have issued bleak forecasts for not-for-profit hospitals due to continued cash shortfalls and increasing costs. Standard & Poor's downgraded 60 hospitals and health systems in 2008 and upgraded just 15. That's compared with 35 downgrades and 18 upgrades in 2007. This unfavorable trend has continued in 2009. For the first five months, Standard & Poor's has downgraded 23 hospitals and health systems and upgraded four.

Clearly, New York's health system is imploding from a lack of resources.

- Twenty-nine (29) hospitals have closed in communities throughout New York State since 2000 (ten closed in the last three years alone).
- Since 2000, 55 nursing homes have closed.
- Many areas of the state are experiencing physician shortages. Fifty-five percent (55%) of New York's practicing physicians are older than 50; 25% are older than 60.
- A shortage of other allied health professionals plagues the entire state.

All of the above data should make it perfectly clear: The Legislature can no longer regard cuts to health care as harmless reductions to faceless brick and mortar institutions. These cuts must be regarded for what they are: direct dollar-for-dollar cuts to vital patient services and cuts to health care jobs. There simply is no room to absorb more losses. Every new cut will directly result in lost access to care in communities across the state and more unemployed health care workers, weakening the primary economic engines in hundreds of communities throughout New York.

My plea to you today is that you must restore balance, equity, and basic fairness to your budget prioritizations and determinations. Health care has already sacrificed far more than its share, and must be spared from even more debilitating cuts in this DRP and in the forthcoming 2010-2011 state budget.

Federal and State Cuts Combine to Diminish Access to Care for the Most Vulnerable

These repeated state actions also must be considered within the context of pending federal health care reform actions that are likely to result in \$10 billion to \$12 billion in additional cuts to New York's health care providers over the next decade. Our state budget decisions cannot be made in a vacuum. We must consider the impact of federal health reform, as it ironically will leave many millions of citizens and non-citizen residents without health coverage.

New York's high concentration of undocumented immigrants will result in a continued high demand for services by uninsured populations, generating huge losses for New York's providers even as the federal policymakers seek to cut the Disproportionate Share Hospital funding necessary to meet this demand.

It is of the gravest concern to our members that both our state and federal policymakers have prescribed massive cuts to health care services, yet neither appears to be aware that the interaction of these decisions is lethal to health care accessibility.

DRP: 5th State Budget Action in 18 Months; 5th Disproportionate Cut to Health Care

Annual cuts to health care have been the norm over the last decade. However, the pace, magnitude, and disproportionate nature of these cuts have increased at an alarming rate over the last 18 months. The timeline follows:

- April 2008—The final 2008-2009 state budget includes \$749 million in health care cuts.
- August 2008—DRP cuts \$1.19 billion from health care.
- February 2009—DRP cuts \$197 million from health care.
- April 2009—Final 2010-2011 state budget cuts \$1.64 billion from health care. In addition, the imposition of the Metropolitan Transit Authority tax generates \$95 million in losses to health care providers.
- October 2009—Proposed DRP cuts more than \$667 million from health care.

HANYS has been a willing partner in working with the state to address ongoing shortfalls. As you recall, last year HANYS and many of our member institutions joined Governor Paterson in Washington, D.C. to help New York State secure \$12.7 billion in increased federal aid for Medicaid, funding known as FMAP. Our reward for this assistance, however, was another round of disproportionate cuts to the Medicaid program and the redirection of nearly 80% of the FMAP dollars to offset proposed revenue enhancers.

From the perspective of the health care provider, it was a bewildering decision that significantly impacted the millions of New Yorkers who rely on Medicaid, Child Health Plus, and Family Health Plus funding to receive necessary health care services.

Fulfilling the Promise of Insurance Expansion

There is a disturbing irony here. New York has been a national leader in expanding public insurance coverage to those most in need. There has been no shortage of milestones achieved in expanding our Medicaid, Child Health Plus, Family Health Plus, and Healthy NY programs. We commend the Legislature and the Executive for these actions.

Coverage expansion alone, while a worthy goal that we strongly support, is only one element of what should be our larger and far more relevant goal: improving the health status of and providing a safety net for millions of medically under-served New Yorkers.

Therefore, insurance expansion must be more appropriately understood as a means to achieve the global goal of eliminating barriers to care. An insurance card will be of little practical value to these individuals if the local hospital has closed, the sought-after specialist has retired or moved out of state, or there is a 60-day waiting time for a needed service.

To achieve better access to care and improved health status for these citizens, we must ensure that the provider network possesses the resources, infrastructure, and staffing necessary to handle the surge in patients caused by governmental insurance expansion activities. Each new round of disproportionate health care cuts diminishes the ability of the delivery system to fulfill the promise you have made to our most vulnerable citizens. These budget actions directly undermine your own goals.

New York's Revenue Crisis

As I stated earlier, given the repeated disproportionate cuts to health care over the last 18 months, the current DRP and the forthcoming 2010-2011 state budget must minimize health care cuts to restore equity and balance to the shared sacrifice model of addressing the fiscal crisis.

It is vital that the Legislature refrain from taking any action that would irrevocably damage critically needed programs and institutions in the name of achieving deficit closure—and especially should not do so by artificially limiting our options.

In restricting a General Fund problem to only a General Fund solution, we inevitably will lose assets that we should be protecting as the fiscal crisis lengthens. We should therefore expand our search for solutions by looking to the Capital Budget, Special Revenue accounts, segregated funds, and other such resources to determine if the funds they contain can be temporarily

diverted, or if the projects to which they are dedicated are still relevant considering the state's fiscal situation and economic circumstances.

We welcome the participation of our new Lieutenant Governor, who was involved in the sound thinking that brought stability and an eventual end to the fiscal crisis of the 1970s. The hallmark of that period was unrestrained creativity that solved an incredibly serious fiscal problem while at the same time fostering the state's and New York City's ability to thrive—and most importantly, to preserve our most critical health and human services assets.

Moreover, it is time for state action to better align with the reality of our fundamental problem. As Governor Paterson has frequently noted, New York is facing a revenue crisis. We must therefore start addressing the crisis as such by enacting methods of increasing revenue that do not adversely impact health care providers. One example is a tax on items that can harm public health. These so-called “health promotion revenues” are being evaluated by many states, and most recently, in September, a tax on sugared beverages and candy was implemented in Illinois.

Meaningful Reform Can Reduce Costs and Improve Care

Implementing true health care reform is another means to control or reduce costs. There have been numerous policy changes proposed and implemented under the banner of health care reform in recent years, but few have resulted in meaningful cost savings or improvements to care.

Over the past two years alone, virtually every aspect of hospital Medicaid reimbursement—inpatient, outpatient, indigent care payments, Graduate Medical Education—has been substantially changed. Hospital management has not only had to absorb several rounds of across-the-board Medicaid cuts and the devastating effects of a national recession on balance sheets, but they have also had to adjust operations to the often unpredictable effects of changes to every component of their payments from Medicaid. And several of these changes are yet to be implemented.

The problem is that this incredibly large and complex set of changes is occurring at a time of serious fiscal stress in every sector. The cumulative effect has been to make it nearly impossible for any health care provider—or even for the State Department of Health (DOH)—to understand and accurately predict the financial impact on an institution. Given the volatility of the economy, we simply should not be making it more difficult for already strained institutions to do their jobs. Instead of assuring such critical assets as hospitals, nursing homes, and home care agencies, it appears that everything is being done to destabilize them.

We did not and do not oppose change. But we did argue for the state to take more time to be certain of the outcome of their reforms and for providers to have the time to adjust operations without jeopardizing needed services.

We learned valuable lessons from the state's recent reform activities:

- Reform should be implemented only after an examination of past reforms that have been ineffective or are out-of-step with changed circumstances.
- The cumulative effect of a battery of reforms often is destabilization, as providers are unable to calculate the fiscal impact of changes which DOH itself cannot compute.
- We often cannot predict the unintended consequences of the interaction of past and about-to-occur reform measures in such drastically changed fiscal circumstances.

Clearly, conceptually sound reform initiatives will sometimes fail to achieve intended results once subjected to the complexities and vagaries of the real world. We therefore urge the Legislature to postpone reforms to the nursing home and home care reimbursement systems scheduled for next year. They do not impact the state budget and they will only destabilize providers. We also ask that you examine with us the other actions that are scheduled to occur in the immediate future so that together we can prevent serious unintended consequences.

Untangle Providers; Modernize the Regulatory Structure

With health care costs skyrocketing, limited health care facility and government resources, and the advent of comprehensive health care reform, HANYS has identified many ways New York State can streamline myriad rules and regulations to decrease the financial and regulatory burden on providers and devote more resources to patient care.

Among these proposals are reforms to the Certificate of Need program, medical malpractice, and Doctors Across New York; a more rational approach to operations of the Medicaid Inspector General; clinical integration between institutions and physicians; and expansion of transitional care.

We have aggregated these recommendations in a recent publication titled, *Tangled Up in Rules*. Our recommendations would decrease the number of regulations that no longer reflect current medical practice and would eliminate duplication of efforts that take time away from patient care. Our recommendations also offer a number of ways in which health care can be streamlined with more appropriate models of care that are better for patients and more cost-effective. We have provided you with copies of *Tangled Up in Rules*, along with *Compound Fractures*, which describes the damage caused by recent health care cuts.

Other Areas of Potential State Savings

In addition to increasing state revenues, identifying other non-General Fund resources and implementing cost saving reform to the state's health care regulatory structure, there is evidence of other opportunities to generate state savings.

Generally, these areas of potential savings include:

- Findings of the New York State Commission on State Asset Maximization, included in its final report issued this past June. The Commission included state legislators.

- Findings of the New York State Commission on Property Tax Relief, which includes recommendations for school district and municipality consolidation.
- The Maxwell School at Syracuse University found that consolidation would save two 900-pupil school districts in New York State 7% to 9% and two 300-pupil districts approximately 20%. The Commission on Local Government Efficiency and Competitiveness used these findings to estimate savings of \$159 to \$189 million from merging New York State districts with fewer than 900 students.

Conclusion

HANYS implores the Legislature to reject the health care cuts contained in Governor Paterson's October 2009 DRP. There is no other logical and humane choice, given the fragile nature of our health care delivery system, the increased demand for services by those who cannot pay, aggressive state-enacted Medicaid enrollment expansion, the likelihood of up to \$12 billion in federal health care cuts, and the four recent inequitable state budget actions that have disproportionately cut billions more from health care.

Other sectors of state spending that have been spared large cuts must be looked to for a more equitable share moving forward. We must also look to impose revenue enhancers that will not harm patients and providers. We must break out of limited thinking in developing solutions. We stand ready to assist in implementing smart, current, and effective regulatory and other reform measures that we have every confidence will improve care and reduce costs.

It must be made perfectly clear that any future significant cuts to health care funding will directly result in real and lasting harm to the health, lives, and livelihoods of the residents in your home districts. We look to you to help us protect them.

Thank you again for the opportunity to be heard today on behalf of our more than 500 member hospitals and continuing care organizations.