

Statement of Kenneth E. Raske, President Greater New York Hospital Association on the SFY 2001-2002 Budget

February 12, 2001

Good afternoon. My name is Kenneth E. Raske, President of the Greater New York Hospital Association (GNYHA). GNYHA represents 175 not-for-profit and public hospitals and continuing care providers on Long Island, in New York City, and in Westchester, Rockland, Putnam, and Dutchess counties. I am pleased to be here today to share GNYHA's perspective on the SFY 2001-2002 budget.

As we begin the 21st century, we New Yorkers have an unprecedented opportunity to strengthen our health care system so that we can take advantage of recent biomedical research discoveries and can lead the world toward the discoveries of tomorrow. We have unprecedented budget surpluses at the Federal, State, and local levels, in large part due to the economic expansion that has been fueled by the technology revolution. In this time of plenty, we must lay the groundwork for a health care system that is stronger; safer; more readily accessible; and that continues to turn scientific advances into new procedures, therapies, and cures. We must also lay the groundwork for a health care system that can not only survive the increased demands of an aging population, but that can thrive and can provide the highest quality care for all New Yorkers.

To do all of this, we must immediately make critical new investments in our health care system. We need to help our providers obtain the tools necessary to enhance quality, including the latest information systems and technologies. We need to empower hospitals and continuing care providers to hire and retain the best educated and equipped staff possible. Given that we are blessed to live in a time of surplus and plenty, it would be irresponsible not to do so.

NEW INVESTMENTS, NOT NEW CUTS

Unfortunately, however, we begin the 2001-2002 budget debate on a discordant note. We have before us a budget proposal that not only does not make new investments in our health care system, but calls for damaging cuts to not-for-profit and public continuing care providers, including nursing homes and home health care agencies. Specifically, the budget proposal calls for \$131 million in State savings through Medicaid reimbursement rate cuts to nursing homes and home health agencies in 2001-2002. When combined with Federal and county funds, the impact on nursing homes statewide increases to \$328 million in 2001-2002, and \$362 million in 2002-2003, for a two-year cost to continuing care providers of over \$680 million.

FRAGILE CONDITION OF NEW YORK'S NOT-FOR-PROFIT AND PUBLIC CONTINUING CARE PROVIDERS

That not-for-profit and public continuing care providers cannot survive these cuts is self-evident. According to the State Department of Health's own analysis, not-for-profit nursing facilities endured \$16.5 million in operating losses in 1999. GNYHA's own analysis shows that 48% of not-for-profit nursing homes experienced negative operating margins in 1999, confirming a trend. Indeed, GNYHA has found that the 1999 operating margin for not-for-profit nursing homes was -0.3%, compared to a positive, though still anemic 1998 operating margin of 0.95% in 1998.

Clearly, even without the proposed Medicaid cuts, not-for-profit and public continuing care providers are hurting financially. They are hurting at a time when public demands upon them are greater than ever before. They are facing a greater demand for services as the population ages; they are treating sicker and sicker patients, as government and private payers demand that hospitals discharge patients sooner and sooner - indeed, the acuity of nursing home residents in New York nursing facilities is the second highest in the United States (see chart below); they are facing severe shortages in direct care staff, from certified nurse aides to registered nurses; and they are facing a barrage of new surveillance

officers, searching for deficiencies both great and small, and a media feeding frenzy of negative stories that only compounds the current workforce shortage by creating low morale, frustration, and fear.

It is clear, then, that the State Legislature must reject the proposed cuts. I hold out hope that in the Governor's thirty-day amendments to his proposed budget, he will eliminate the proposed cuts himself, so that we can quickly change the discussion. We must quickly turn from a debate about whether or not to damage our health care system, through new Medicaid cuts, and begin a debate about how we can best provide new investments across the continuum of care in order to prepare New York's health care system for the demands of the 21st century.

OUR HOSPITALS ARE IN CRITICAL FINANCIAL CONDITION

As mentioned, New York's not-for-profit and public continuing care providers are suffering financially, and need new investments in order to meet the challenges of the new century. This is also true of New York's hospitals.

According to the Center for Healthcare Industry Performance Studies (CHIPS),¹ the financial health of New York hospitals ranked worst in the nation in 1999, as it did in 1998. In the prior three years, New York hospitals ranked second worst. Yet, New York's hospitals also continued, as they have in the past, to be among the most efficient in the country. This underscores that insufficient revenue resulting from inadequate Medicaid payments, managed care, and Medicare cuts, rather than excessive costs, is the problem that must be addressed if all New Yorkers are to continue to enjoy the quality of and access to hospital care to which they have become accustomed. I have attached a full summary of CHIPS findings that was prepared by GNYHA and I urge you to read it in full.

Highlights of the CHIPS analysis are as follows:

- CHIPS measures hospital financial health using a "financial flexibility index" that is a composite of seven financial indicators representing profitability, liquidity, capital structure, and other financial ratios. Using this composite index, New York hospitals ranked worst in the country in overall financial flexibility in 1998 and 1999. From 1995 through 1997, New York's hospitals ranked second worst.
- In 1999, the median total margin of hospitals in New York State was -0.3% compared with the national median of 3.4%. New York hospitals' total margin was the fourth worst in the United States, or 42nd out of 45 states reporting.
- In 1999, the median days cash on hand from short-term sources of New York hospitals was 19 days compared with the national median of 25 days. New York ranked 40th out of 45 states reporting, or the sixth worst in the United States.
- In 1999, the median cash flow to total debt of New York hospitals, a key indicator of capital structure, was fourth worst in the United States. The average age of New York's hospital plants was above the national median, causing New York to rank second worst in the nation, and the adequacy of our hospitals' current investments to meet capital replacement needs ranked sixth worst in the country. And, the percentage of total hospital assets in New York financed by equity instead of debt was relatively low, again causing New York to rank fourth worst in the United States.

However, with respect to hospital efficiency, CHIPS' analysis shows, as it has in the past, that New York's hospitals are relatively efficient.

- New York's net price per inpatient discharge, adjusted for severity of illness and cost of living, was below the national median, causing New York to rank third best in the United States.
- New York's adjusted net cost per discharge was also third best in the United States.
- Our hospitals' net price per ambulatory visit was third best in the country, as was our net cost

per visit.

As I have noted on other occasions, the cumulative effect of Medicaid cuts, Medicare cuts under the Balanced Budget Act of 1997, the growing crisis of the uninsured, and inadequate payments from managed care companies has combined to produce these results. With respect specifically to private payers, most of whom would now be characterized as practicing managed care to one degree or another, I would also note that according to an analysis of the Medicare Payment Advisory Commission, also known as MedPAC, the private sector enjoys one of the lowest payment to cost ratios in the United States. That is, while the average private payer in the United States pays hospitals an amount that is 12% above the hospital's costs, in New York, payments average 3% below cost.

These external studies confirm what GNYHA has observed from our own collection of hospital financial statements. While we await the completion of audited 2000 financial statements, we collected from 48 member hospitals unaudited financial statements through the third quarters of each of 1998, 1999, and 2000 to observe trends. The sample represents over 65% of GNYHA's hospital membership by revenue. This analysis shows deterioration both of the operating and total margins of the 48 hospitals for which complete data were available.² In particular:

- The operating margin of study hospitals decreased from -0.39% through the third quarter of 1998 to -1.68% through the third quarter of 2000.
- The total margin of study hospitals decreased from 0.17% in 1998 to -0.86% in 2000.
- 31 hospitals, or 65%, experienced a worsening of their operating margins from 1998 to 2000, while 28 hospitals, or 58%, suffered from deteriorating total margins.
- 31 hospitals, or 65%, have both negative operating margins and negative total margins in 2000.

These data show what anyone involved with hospitals today knows: financial condition is poor and deteriorating, and this is true in all sectors, from academic and major teaching hospitals to small community hospitals. The United Hospital Fund, in consultation with Deloitte & Touche, recently analyzed three years of audited financial statements for 36 voluntary hospitals in New York City, as well as data from its own surveys.³ The UHF study found that the median operating margin had fallen in the past five years from 0.1% to -1.6%, and that a growing number of hospitals were reporting operating losses. Within this group, fully one-quarter had operating losses exceeding 5%, compared to just 5% of hospitals in 1995. The UHF study identified a group of hospitals most at risk, finding that they tended to be small, serving a disproportionate share of Medicaid patients, and experiencing decreased volume. The vulnerability of these hospitals, many of which are needed facilities serving low income neighborhoods, is reflected in many of our proposals that are targeted at correcting specific problems presented by Medicaid.

Clearly, New York's hospitals and continuing care providers are in desperate need of financial help in order to preserve and improve quality; enhance access; and meet the ever-increasing health care needs of an aging population. To achieve these goals, hospitals and continuing care providers need to upgrade their physical plants; make major new investments in technologies, including information technologies that can help enhance quality and reduce medical errors; and hire and retain well-educated staff, at a time when people are actually leaving the health care professions.

Attached are GNYHA's agendas for 2001 for hospitals and continuing care providers. The proposals on the agenda are intended to provide the help GNYHA believes is necessary to strengthen and prepare our health care system for the 21st century. Some of the proposals provide direct help to health care providers; others provide indirect help by enhancing access to health insurance and long-term care insurance for all New Yorkers. The proposals include:

- rejecting new Medicaid cuts for continuing care providers;

- increasing funding across the continuum of care to help hospitals and nursing homes cope with new labor contracts and to help providers retain, recruit and train the best staff possible;
- providing funding for information systems that can help enhance quality and efficiency;
- prohibiting abusive HMO payment practices; and
- expediting the expansion of health insurance coverage by
- implementing Family Health Plus;
- repealing the restrictions on Medicaid and Family Health Plus coverage for immigrants;
- streamlining eligibility for Medicaid, Child Health Plus and Family Health Plus to ensure that 1 million New Yorkers who are eligible for programs but are not enrolled do enroll and stay enrolled.

As always, thank you for your attention to our concerns. I look forward to working with you in the coming weeks to improve the financial health of our hospitals and continuing care providers and the health care they provide for all New Yorkers.

- ¹ CHIPS is a division of the Ingenix Publishing Group, which publishes the 2001 Almanac of Hospital Financial & Operating Indicators. CHIPS was founded in 1992 by William O. Cleverley, Ph.D, at the Ohio State University. Dr. Cleverley is no longer associated with CHIPS. CHIPS owns several large databases, including one of approximately 3,000 audited financial statements, which forms the basis for the financial indicators in the Almanac, and a proprietary database of approximately 1,700 hospitals, which forms the basis for the operating indicators in the Almanac.
- ² 30 of the study hospitals are in New York City (not including the New York City Health and Hospitals Corporation), 9 are in the Northern Metropolitan Region, and 9 are in Nassau and Suffolk counties.
- ³ Hospital Watch, January 2001, Vol. 12, No. 1. The study excluded the New York City Health and Hospitals Corporation and six voluntary specialty hospitals.