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Dr. Mitchell Katz, CEO of NYC Health + Hospitals, visits Gouverneur Medical Center, a neighborhood health center on Manhattan's Lower East Side.

NYC Health + Hospitals Gambles on Expansion Over Cutbacks

By: Steven Ross Johnson

(Published February 22, 2020 by *Modern Healthcare*)

The years following implementation of the Affordable Care Act have been a time of uncertainty for many city public hospital systems.

While the health law has reduced uncompensated-care costs for many providers and increased their volume of insured patients, public safety net health systems have largely not reaped many of the benefits of the healthcare law.

The growing financial challenges facing municipal hospitals have led to a [series of closures](#) in cities throughout the country over the past decade.

Decreases in federal and state support that were designed to offset the cost of caring for low-income patients have forced some of the largest public safety-net systems to cut services and personnel to survive.

Yet for some, those moves will not be enough, a point not lost on the head of the country's largest public health system, which is itself working to get its financial footing.

“Philadelphia has a lot of low-income people, and they once had a public hospital but no more,” said Dr. Mitchell Katz, CEO of NYC Health + Hospitals. “Washington, D.C., Milwaukee and Sacramento (Calif.) all had a public hospital, but no more.”

It's not just big cities that are losing their public hospitals. The number of state and local government-owned community hospitals has fallen 17% to 965 in 2018 from 1,163 in 2000, according to the American Hospital Association. By contrast, the number of investor-owned community hospitals increased by 73% over the same period.

NYC Health + Hospitals itself has faced years of rising costs and declining revenue due to low rates of insurance reimbursement, decreasing inpatient visits, and federal funding cuts.

Armed with an infusion of \$1.1 billion in tax levy funds in 2016, the NYC system is aiming to take the lead in how public health systems should provide care by transforming its operations, following a different route than is typical.

NYC Health + Hospitals' approach has largely focused on expanding primary-care access throughout more parts of the city, streamlining administrative expenses, and improving its billing practices to try to get higher reimbursement rates from insurers, instead of cutting back on services.

“The reason to grow is because you believe that you have something important to offer,” Katz said. “We're growing because the system has something unique and special to offer people, and when we present what we have in a meaningful way, patients come.”

Still, the financial impact from the health system's transformation has been muted so far. Net patient revenue as listed in its cost reports fell 0.7% to \$5.45 billion in 2018 relative to 2016's total of \$5.49 billion, according to the system.

And NYC Health + Hospitals is still losing millions on patient care, but less than it was, according to [Modern Healthcare Metrics](#) data and [budget figures](#) reported to the system's board.

Net income from services to patients, which is net patient revenue minus total operating expenses, fell to -\$1.2 billion in 2018 from -\$1 billion in 2016, a calculation that system officials said they don't believe carries much weight because it includes irrelevant figures. The figures are derived from Medicare cost reports

NYC Health + Hospitals' own reporting to its board showed that from 2016 to 2018 operating revenue rose 11.5% to \$8.7 billion, while operating expenses climbed more slowly at 8% to \$9.9 billion. The resulting \$1.2 billion operating loss in 2018 was 11.5% lower than it was in 2016.

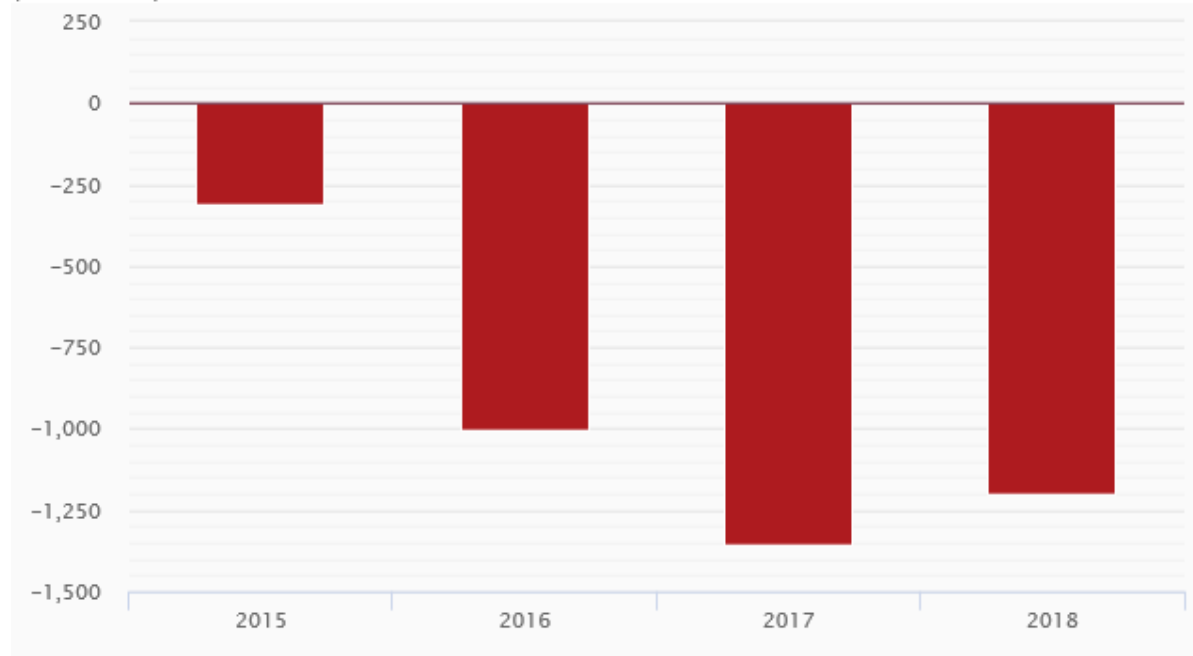
According to a statement from the health system, the numbers reflect several major revenue reforms that began in fiscal 2017 and 2018 that affected patient revenue by the end of fiscal 2018; those efforts have continued to grow in fiscal 2019 and 2020.

Critics argue the plan has not been ambitious enough toward achieving the system's outlined goals of raising revenue by growing its volume of insured patients, or in cutting costs. They say while the effort so far has shown promise, much of the transformation strategy's success—and the viability of the system more broadly—hinges on the municipal and state funding it receives to make up budget shortfalls. New York City Mayor Bill de Blasio recently warned state Medicaid cuts could reach up to \$2 billion for New York City, further increasing the need for support.

“They're moving in the right direction and the things they want to do are basically the right things on most of this,” said Charles Brecher, senior adviser for health policy for the Citizens Budget Commission, a not-for-profit, nonpartisan watchdog organization that advocates for good financial governance in New York City and New York state government. “It's just that it's going to be very hard because a lot of it depends on state actions.”

Net service to patients

(\$ in millions)



Income and taxes (\$ in millions)

	2015	2016	2017	2018
Net income/ loss	\$391	\$1,518	-\$169	\$90
Funds from tax levy	\$139	\$1,128	\$477	\$516

Source: Modern Healthcare Metrics, New York Health & Hospitals Corp.

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Net patient revenue minus operating expenses

Efforts so far

The effort to transform the financial state of NYC Health + Hospitals began in 2016. At that time, de Blasio introduced a [turnaround plan](#) that aimed to substantially expand access to healthcare services and develop efficiencies to improve care quality and lower costs. Top goals of the plan included cutting expenses by \$700 million and adding \$1.1 billion of new revenue by fiscal 2020.

Investments in the health system's new electronic health record system, as well as increases related to collective bargaining agreements and the rise in employee benefits costs have contributed to a 9% rise in total operating expenses from \$6.06 billion in 2015 to \$6.64 billion in 2018, according to Modern Healthcare Metrics. Health + Hospitals officials contend that efforts over the past several years to reduce staffing levels and maximize efficiencies within its supply chain have significantly reduced spending from predicted levels.

Katz partly attributes progress made thus far to the health system's focus on cutting administrative costs.

Last January, officials announced plans to consolidate six administrative locations into one new building; at the time the system claimed that would cut its real estate rental costs by a total of \$16.5 million over five years.

The health system in January made several key changes to its senior executive leadership. NYC Health + Hospitals Queens Hospital Center CEO Christopher Roker was named CEO of the system's Metropolitan Hospital in Manhattan as well as the system's chief growth officer, while Elmhurst Hospital CEO Israel Rocha replaced Roker as CEO of Queens Hospital Center.

The system also added more than 600 nurses and nursing support staff over the past year.

Revenue cycling harder

In terms of generating more revenue, Katz acknowledged that Health + Hospitals has traditionally failed to make billing insurers a high priority, which has led to the system in the past having lower reimbursement rates among its commercially insured patients compared with other hospital networks.

"We are very proud of the fact that Health + Hospitals has always taken care of people regardless of their ability to pay," Katz said. "Unfortunately, what that translated to is that we sometimes don't bill their insurance even if they have it, or we don't enroll them into insurance even if they're eligible, and that was a major mistake."

An analysis released in December by the [Citizens Budget Commission](#) found the health system recovered a smaller share of its costs for services from payers compared with other city safety net providers and large teaching hospitals.

The report found Health + Hospitals recovered just 42% of its associated costs from commercial insurers compared with 167% among large academic medical centers and 77% among other safety-net institutions. In terms of Medicaid, the system collected an estimated 53% of its costs compared to 77% among safety-net providers.

The commission's Brecher said the challenges Health + Hospitals has had in billing commercial insurance have contributed to its increasing budget shortfalls, which have been supplemented with city and state funding.

"If you have a big profit margin on commercial insurance and few Medicaid patients, you do well in this system," Brecher said. "If you're Health + Hospitals and you're not getting even 100% from commercial insurance and you have a lot of Medicaid patients, it's not working for you."

The health system has sought to increase revenue by growing the volume of insured patients and improving its billing practices to get higher reimbursement rates and contract terms from payers, Katz said.

Building access and enrollment

Last August, the city launched the NYC Care program, a \$100 million-a-year initiative to expand healthcare access to the estimated 600,000 uninsured residents.

One part of the program focuses on enrolling those without insurance to Health + Hospitals' public insurance option, MetroPlus. NYC Care also promotes providing direct access to Health + Hospitals facilities for primary-care services to an estimated 300,000 residents who cannot afford coverage or are ineligible to enroll because of their undocumented-resident status. The program is intended to reduce the need for residents to visit hospital emergency departments for primary-care services.

"Not being adequately compensated for the amount of charity care we give throughout the years has led to a huge deficit," said Dr. Ram Raju, former CEO of NYC Health + Hospitals and currently community

health investment officer for Northwell Health.



A patient gets a checkup at one of NYC Health + Hospitals' more than 70 clinic sites.

In terms of billing, the system expanded the size of the department handling its revenue cycle with the addition of 390 positions over the last couple of years. Staff members were added to billing, documentation and coding departments, while more personnel have been tasked with negotiating reimbursement rates with managed-care plans.

Matthew Siegler, senior vice president for managed care at Health + Hospitals, said new systemwide policies require staff to check all uninsured patients' eligibility for enrollment in a health plan offered on the state's insurance exchange and to help them get coverage. He credited the practice with a 20% annual increase in insurance applications for the last two years.

"We took a much harder line as we negotiated with many of those plans," Siegler said. "We told them we're not trying to get the highest rates of any hospital in the city, but that they needed to step up and pay what's fair."

Katz said such efforts helped the health system collect \$260 million in patient revenue in the past year through billing insurance, allowing the system to hit total patient revenue of \$3.86 billion, \$30 million higher than fiscal 2018.

Those efforts have led to significant rate increases and improved terms from many of the public system's payers, according to Siegler. Billing cycle improvements helped generate \$216 million in fiscal year 2019, up from \$150 million the previous year, according to the health system's fiscal 2019 year end financial results [released last October](#).

Siegler in January took on the added role of CEO of OneCity Health, the performing provider system

formed under New York state's Delivery System Reform Incentive Payment program; that program provides funding for hospitals to change how they provide care to Medicaid beneficiaries and requires them to meet certain performance metrics.

Siegler said he expected further improvement to the revenue cycle as Health + Hospitals completed transitioning all of its clinic sites to a new, single EHR and financial system last December. "The move would greatly improve the public hospital system's ability to document, code and bill insurance companies," he said.

Health + Hospitals, with its 11 acute-care hospitals, five post-acute care facilities and 70 community health clinics, retains a large share of New York City's patient market—providing nearly half of all city clinic visits annually.

But the health system has seen a continued decline in patients, falling by 2% in fiscal 2019 compared with the previous fiscal year and by more than 7% compared with fiscal 2015, according to figures from the city's [2019 Mayor's Management Report](#).

Brecher felt the changes that Health + Hospitals has been making to become more efficient, improve its billing cycle and attract more insured patients were positive steps. But the strategy was not without risk. He said the plan relies in part on the health system's ability to attract more commercially insured visitors as inpatients despite recent trends that have shown the overall patient pool is shrinking.

Nationally, the number of inpatient stays decreased by more than 6% between 2005 and 2014, according to a 2017 analysis by the [Agency for Healthcare Research and Quality](#), with hospitalizations among patients with private insurance seeing the sharpest decline, more than 18% over that period.

"He's bucking a pretty strong tide," Brecher said of Katz and the turnaround plan. "More power to him if he can do it, but it's very hard in a shrinking market to increase your market share when the perception is for many people, you're not the first-choice provider."

A balanced approach

Katz acknowledged that Health + Hospitals' traditional business model made it difficult to generate much insurance revenue from its inpatients because, much of the time, the system outsourced many of the cases that could generate the highest reimbursements to other hospital systems.

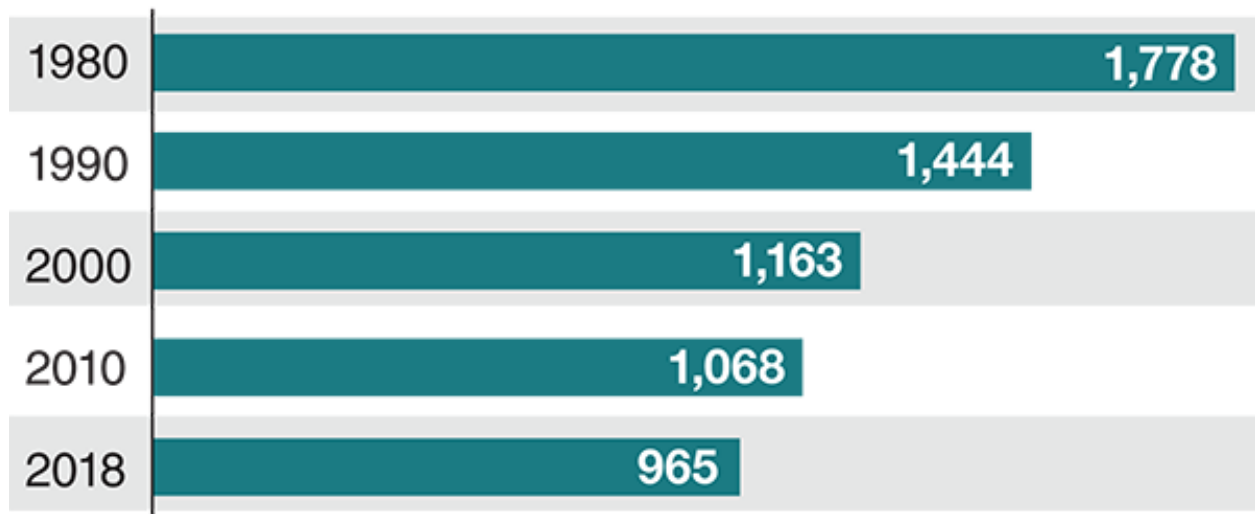
He said the transformation strategy has called for providing more specialized services, such as emergency care and complicated surgical procedures.

"The history of Health + Hospitals was that if someone else would provide that service we would send those patients out of Health + Hospitals," Katz said. "We had a not very good business model where we keep all of the things that paid poorly, and we would send out all of the things that paid well—you keep a system viable by doing both."

Katz said there was no reason why the health system could not provide more higher-paying services while expanding its role as the city's largest primary-care provider. Annually it provides up to 60% of all mental health services performed in New York City.

State and government community hospitals

Number by year



Source: 2020 AHA Hospital Statistics

State and government community hospitals

Better coordination

Dr. Mabelle Allen, Health + Hospitals' senior vice president and chief medical officer, said increased coordination through its new EHR system has allowed the health system to regionalize some of its services to avoid having the same procedures offered at all 11 hospitals, helping better use resources.

In September, Health + Hospitals' Bellevue Hospital received provisional designation as a Level II pediatric trauma site, allowing the facility to treat up to 100 patients a year who would have been traditionally transferred to other centers.

"The willingness to invest in the subspecialties to support those patients who actually require further care than just primary care takes a commitment," Allen said. "Each of our hospitals has something to offer their community."

Dr. David Chokshi, vice president and chief population health officer at Health + Hospitals, felt the system's focus on increasing its subspecialty offerings was fundamentally connected to its overall push to become even more primary-care centric.

"We are entering into a new era of healthcare financing related to value-based payment, and that makes it more important for primary care to be at the center of healthcare delivery," Chokshi said.

Last year NYC Health + Hospitals launched its community care division, which includes the system's first home-based primary-care delivery program with a team made up of doctors, nurse practitioners, social workers and community health workers who visit homebound patients.

Chokshi said he viewed Health + Hospitals' role as offering an underserved patient a medical home in an environment where individuals have no shortage of options but might feel intimidated seeking care elsewhere.

“They know they can interact with staff who look like them, who come from the same communities that they do,” Chokshi said. “I think that is what is part of the DNA of our system.”

But some question whether Health + Hospitals’ strategy of expanding its role as the city’s safety net provider may run counter to its effort to become more competitive with the top academic medical centers for insured patients. “If you look at the numbers, that’s where you lose the most money, you lose it on outpatient care to poor people,” the Citizens Budget Commission’s Brecher said. “Doing more of it is a socially good thing, but I don’t think it’s going to help your balance sheet.”

Others contend Katz’s approach has succeeded at other municipal health systems.

As director of the Los Angeles County Health Agency, Katz is credited for turning around the financial fortunes of a struggling public system by converting a \$170 million deficit in 2010 into a \$270 million budget surplus by 2015 by increasing revenue and cutting administrative costs.

Dr. Hal Yee, chief medical officer at the Los Angeles County Department of Health Services, said Katz’s ability to attract the right people and to quickly build relationships with board supervisors and the media allowed the health system to make the changes needed without attracting undue scrutiny.

“By keeping all of the stupid things that get in the way of good healthcare off of our backs, we were able to do our work and put in place disruptions and innovations,” Yee said. “All of the things necessary to execute in healthcare he allowed us to do that.”

For more on NYC Health + Hospitals services, click [here](#).