



1383 Veterans Memorial Highway, Suite 26
Hauppauge, NY 11788
631-435-3000 Fax: 631-435-2343
www.nshc.org

*The collective voice of Long Island's
not-for-profit and public hospitals*

Budget Hearing

Impact of Governor's 2008 – 2009 Executive Budget Proposal on Long Island's Hospitals

Testimony of the

Nassau-Suffolk Hospital Council

before the

Assembly Republican Members

March 7, 2008

Nassau County Legislative Chamber
Mineola, New York

Thank you Republican members of the State Assembly for holding this public hearing about the Governor's proposed 2008 – 2009 budget, and its impact on Long Island's hospitals. I am Kevin Dahill, president and CEO of the Nassau-Suffolk Hospital Council, the association that represents the 24 not-for-profit and public hospitals on Long Island. Collectively, our hospitals serve 2.8 million residents in our two counties.

This year, more than any other, it is imperative that as much open debate and informed discussion about the impact of the proposals contained in the Governor's budget takes place. That is because this executive budget contains massive and sweeping policy changes and reform initiatives. Further, we now have less than one month's time to digest, analyze, and project the impact of the Governor's recommendations, especially in light of the fact that the Department of Health only released its quantifying data just seven days ago. What is clear is that the net effect of redistributing funds, the most significant policy proposal, is that Long Island will have more losers than winners. Nineteen of the 24 hospitals on Long island will be negatively affected, if the state's plan to include Graduate Medical Education (GME) and workforce, as part of inpatient rebasing, remains. We're talking about a loss of more than \$8 million in this area alone, when the rebase estimates are fully implemented.

Having said that, let me emphasize early on that there are a handful of proposals in this budget that our hospitals welcome. These include:

- Investments in primary and preventive care
- Expanding Child Health Plus
- Modernizing segments of the Medicaid reimbursement rate structure
- Targeting HMOs and pharmaceutical company profits
- "Doctors Across New York" – a program to address physician shortages

Our concerns lie, however, in the assumptions and seemingly contradictory outcomes these proposals could have upon the hospital community, and therefore upon the millions of residents we serve. We need a deliberative process to consider all the implications of health policy choices.

Inpatient Rate Re-basing and Ambulatory Care

In theory, re-basing inpatient Medicaid rates using 2005 costs and then transferring these **assumed** savings to outpatient/ambulatory care services makes sense. In reality, we cannot verify, at this time, the state's value (\$600 million at full implementation) of re-basing these inpatient rates. Further, the reliability of hospital-specific ambulatory care payment estimates cannot be judged without claims data that are not yet available.

The state's re-basing savings, which are over-estimated in the professional opinion of hospital financing experts, could lead to unintended consequences for hospitals and their patients. These include endangering future outpatient investments and/or a need to further reduce inpatient payments.

Complicating matters on the ambulatory care side is the state's desire to use a different approach (Ambulatory Patient Group) to calculate reimbursement for all outpatient services. This method requires new software and hospitals would be expected to incorporate this information technology change in time for a July 2008 implementation. This is a huge undertaking that cannot possibly be completed in such a short time frame.

Additionally, we caution lawmakers to consider the propriety of directing some of the projected re-based savings to freestanding ambulatory surgery centers. These facilities

have largely ignored Medicaid and indigent populations and threatened the viability of safety net services provided by hospitals by “cherry picking” their patients. Increasing reimbursement rates for these facilities is an unjust reward. Hospitals embrace their philanthropic mission to care for the indigent, underinsured, and Medicaid patients, yet are financially challenged each year by the losses inherent in charity care.

Physician Supply

Again, hospitals applaud the Governor’s efforts to address the physician shortage. In theory, the “Doctors Across New York” program is meritorious, but its funding mechanism is questionable. In this instance, the Governor is looking to re-direct some of the projected savings from inpatient rate re-basing to the “Doctors Across New York Program.” However, Graduate Medical Education (GME) would be reduced by \$104 million, as part of the state’s hospital inpatient re-basing. How do you fund expansion for physicians by taking money out of the program that trains physicians?

Other Components

There are other proposals in the executive budget, which concern our hospitals. These include:

- New distribution methodology for bad debt/charity care reimbursement that moves away from a cost basis to a unit of service approach, resulting in significant re-distribution of funding among hospitals (also part of re-basing reform)
- MEDICAID TREND FACTOR CUT of 35%. A yearly adjustment in rates that is tied to inflation. This cut is worth about \$3.7 million to Long Island’s hospitals and would become effective April 1st.

The Larger Picture

As I stated earlier, our hospitals welcome reform, and indeed, many have called for an update of inpatient rates, in recent years. Yet, rapidly implementing fundamental shifts in provider funding after years of neglect can have many unintended consequences for the health care system. We must know the full impact of changes before agreeing to their implementation.

I also ask our legislators, as they move through the reform process, to keep in mind other pressures our hospitals face, particularly in the revenue area.

- In 2007 Long Island's hospitals suffered \$68.5 million in state Medicaid cuts
- Federal level cuts have held New York's cumulative Medicare hospital rate increases to 15.4% over the last 10 years, while hospitals' costs have increased by 43.2% - almost three times as much.
- To date, Long Island's hospitals have lost \$3.2 million due to the delay in implementation of approved Medicaid ER rate increase that went into effect 1/1/07.
- Our hospitals face another \$114 million in cuts proposed by the Bush administration; swelling to \$1.2 billion over five years (2009 – 2013).

Hovering in the background are the restraints imposed on hospitals by commercial health insurers. Over time, these mammoth corporations have been able to squeeze hospitals, by eroding the commercial reimbursement base to below cost levels. As these insurers continue to merge, their dominance in the marketplace grows. Our hospitals have fewer and fewer chips to bargain with and are forced to accept absurdly low reimbursements and unfair business practices, such as unfounded denials and delays in payments.

The HMO chart, which I attached to your copies of my testimony, most graphically depicts the unfair situation in which our hospitals have been placed. Quite simply, as insurers' profits have ballooned to more than \$1 billion, hospitals have endured a loss in operating revenue of \$95 million. You might want to note that in 2006 Long Island's

hospitals posted a paltry .7% operating margin. Economists agree that an operating margin of at least 4% is necessary for the operation of a healthy not-for-profit organization.

This is why our hospitals are particularly pleased that the Governor's budget includes HMO modifications, mainly re-classifying HMOs as insurance companies. Given the huge profits enjoyed by HMOs, it is clear that these organizations can easily absorb the premiums tax increase of a business corporation tax. The state estimates this change would generate \$247 million in fiscal year 2008 – 2009 and \$288 million when fully effective.

In closing, thank you for the opportunity to speak on behalf of Long Island's hospitals. As you consider the Governor's proposed spending plan and the reforms he seeks, I ask that you keep in mind the vital role that hospitals play in Long Island's economy. As one of the region's largest employers, the hospital industry contributes \$13 billion to the regional economy through direct and indirect spending. Any abrupt disruption in reimbursement mechanisms would be a disruption to this area's economy, and more importantly, a disruption to hospital patients, who are your constituents.