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

Public Forum

New York State's Current Fiscal Crisis and Its Impact on Health Care

Testimony of the

Nassau-Suffolk Hospital Council

before the

New York State Senate Democrats

December 11, 2008

Brookhaven Town Hall
1 Independence Hill
Farmingville, New York

Good morning, Senator-elect Foley and Democratic members of the State Senate. Thank you for holding this public forum. The 24 not-for-profit and public hospitals on Long Island that I represent as the president and CEO of the Nassau-Suffolk Hospital Council welcome the opportunity to share their concerns, insight, and solutions about the state's current fiscal crisis.

We are experiencing an economic disaster of unprecedented magnitude. No sector of industry, public or private, is safe from the ravages of this economic downturn. Certainly, this is the worst financial crisis I have seen in my 30-plus years in hospital and health care administration.

I would like to emphasize two points this morning. The first is that it would be extremely shortsighted to ask hospitals and their patients to shoulder the lion's share of budget cuts. Those who most rely on Medicaid – the frail elderly, the disabled, the working poor – are the people who are already most harshly impacted by the bad economy.

During difficult economic times, the demands on hospitals increase. When people lose their jobs, they also lose their health insurance, making them more likely to turn up in a hospital emergency room for care. Emergency room overcrowding and longer waiting times for care will only be exacerbated by another round of hospital cuts. Hospitals' finances – having already sustained two rounds of state budget cuts in 2008 -- will be further stressed by a rise in uncompensated care.

Hospitals are already in a precarious financial state, and are in no position to withstand further cuts. As a region, hospitals on Long Island operate within a razor-thin operating margin of less than one percent. A majority are in the red. They face difficulty

in meeting payroll, benefits, and pension demands, difficulty in meeting facility operating and maintenance costs, and certainly an inability to invest in any equipment or service upgrades, no matter how urgent the need.

If these conditions were a short-term consequence of the economic crisis, that would be difficult enough. However, most hospitals in our region have been struggling financially for the past decade, as cuts to federal and state reimbursement rates and low managed care payments continue to chip away at their solvency. No enterprise can thrive in the long term under such conditions.

My second point is that, in spite of the extremely difficult financial environment in which our hospitals are forced to operate, this very sector of our economy is the one that has been able to provide some stability and economic stimulus to our region. Health care is the second largest employer on Long Island; hospitals alone employ about 82,000 people and regionally add near \$13 billion to the local economy through income tax revenue, direct hospital spending and indirect spending by employees.

However, these important contributions to the local economy are threatened. Cuts of the magnitude proposed by the governor last month may result in layoffs, service cuts, deferred construction projects and cancelled orders for new equipment and technology acquisitions. That means higher unemployment rates, lost tax revenue, more uninsured workers and no job creation in the construction and medical supplier industries.

New York State has the opportunity to help its own financial dilemma and to lead the nation in an economic recovery by treating hospitals as the economic engine they are: instead of cutting health care reimbursements again, New York State should invest in an industry that has proven it will grow good jobs with decent salaries and benefits. As the

demand for health services will intensify in the coming years – 800,000 baby boomers on Long island will begin reaching retirement age in 2010 – the demand for workers to meet the complex medical needs of this population will follow. Nationally, the U.S. Department of Labor predicts that the total number of jobs in the health care sector is expected to grow by 18 percent by 2012, twice the rate of growth of other occupations. Investments in our health care infrastructure now will ensure our ability to meet these demands, while creating jobs that cannot be sent offshore.

As the Senate begins its consideration of the 2009-2010 budget, I ask you to consider that, just as the economic crisis is multi-faceted, so are the causes of the state's looming budget deficit. Medicaid growth is not a primary driver of the budget deficit – in fact, the cost per enrollee has remained virtually unchanged in recent years – and should not primarily bear the burden of closing the gap.

Instead, I urge you to address the crisis with multi-faced solutions that benefit the state and its residents for the long term. I hope that you will consider the following:

- Invest in health care providers and hospital infrastructure to promote economic development and job growth. Hospitals' crucial role in their local and regional economies has often been overlooked. This current economic crisis has highlighted the value these institutions provide to their communities and how these institutions can be an integral part of the solution to the crisis, with the state's support. There is more benefit to the state's budget from investing in health care, which will create new jobs, than there is to be saved by cutting reimbursements.

- Work in partnership with health care providers to ensure that health care dollars are spent efficiently. The work of the Medicaid Inspector General's office in uncovering fraud and recouping money is vital, as are efforts by all providers to ensure that care is delivered in the most cost-efficient and effective setting possible. Hospitals engage in quality care and control practices on a daily basis and regularly review and implement best practice strategies to improve clinical and operational efficiencies.
- Enact malpractice reform. New York will continue to see a flood of doctors leaving the state if liability insurance rates continue to skyrocket. Many parts of the state are already facing shortages in key specialties.
- Don't move forward with harsh cuts until we know how New York will benefit from the economic stimulus package under consideration by Congress. An increase in the Federal Medical Assistance Percentage (FMAP) could provide billions of dollars to help fill budget holes. Federal legislation to expand the State Child Health Plus Insurance Program (SCHIP) to allow federal reimbursement for states covering families with higher income levels would also ease New York's financial burden. The state is currently covering children at higher income levels without federal matching funds, and enrollment has sharply increased this year.
- Invest in health information technology, a sure bet to reduce errors, improve efficiencies, save money and better coordinate care. Additionally, it opens the door to thousands of jobs. The probability for jobs in this area is high, as

President-elect Obama's stimulus plan includes electronically connecting doctors, hospitals, and other health care providers.

- Allow regulatory reform that gives providers the flexibility to meet changing market demands and experiment with new initiatives to improve patient care and produce efficiencies. Regulatory reform relief, particularly in the Certificate of Need process, would free up hospital administrative resources to be diverted to more needed areas.
- Establish a level playing field through managed care reform. Premiums continue to rise, while insurers spend fewer premium dollars on health care services. During the past decade, commercial insurers have amassed billions in profits, while not-for-profit hospitals have lost millions in revenue. The Suburban Alliance, of which the Nassau-Suffolk Hospital Council is a member, has been able to forward several regulatory reforms that enhance provider and patient protections. This group's ultimate goal is to secure legislation that would require these for-profit companies to contribute a percentage of their hefty profits to a health care re-investment fund. This could be another revenue source for hospitals. The idea is to use this money to fund health information projects, physician recruitment, or other initiatives that would assist patients, hospitals, and communities, thus lifting some of the funding burden off the state's shoulders.

On behalf of the member hospitals of the Nassau-Suffolk Hospital Council, I once again thank you for the opportunity to offer this input. The next legislative session will no doubt be one of the most complex and difficult to date. The

Hospital Council and its members pledge to work cooperatively with members of the state legislature, the governor's office, and other regulatory agencies to ensure that a fiscally responsible budget that meets the needs of all stakeholders moves forward.