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COMPOUND FRACTURES

THE PATIENT SERVICES AND EMPLOYMENT IMPACT
OF REPEATED STATE AND FEDERAL BUDGET CUTS

\$3.87 BILLION IN CUTS TO HEALTH CARE OVER 36 MONTHS

CRITICAL HEALTH SERVICES ELIMINATED

PATIENTS DEFERRING NECESSARY CARE

CAPITAL PROJECTS SCRAPPED OR POSTPONED

THOUSANDS OF LOST JOBS

INCREASING SERVICE DEMAND . . .

CONTINUING FISCAL SHORTFALLS



Healthcare Association
of New York State

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EXECUTIVE SUMMARY

In just the last 17 months, Governor Paterson and state lawmakers have enacted four distinct budget actions that, combined, have reduced funding to hospitals, nursing homes, and home health care providers by a staggering \$3.87 billion, covering the period January 2008 through December 2010. Additionally, for every year thereafter, the annualized impact of these actions will be nearly \$1.7 billion. Exacerbating these cuts, recent federal budgetary actions have resulted in an additional \$240 million in cuts to hospitals, nursing homes, and home health care providers.

The impacts of these actions have begun to accrue in the form of thousands of lost jobs and the elimination of critical health services in communities throughout the state.

Now, in both Albany and Washington, D.C., health care providers are facing billions more in funding cuts.

The most troubling implication of these repeated budget actions is their impact on the availability of vital medical services. A recent survey of the state's hospitals conducted by HANYS found that through the first quarter of 2009, many have been forced to take very difficult actions to stabilize their finances and protect their core services.



Hospitals across New York State are reporting the need to eliminate or reduce vital health care services, including cancer treatment.

Services eliminated or diminished include:

- cancer treatment and diagnostic services, and equipment purchases;
- numerous emergency room (ER) expansion and modernization projects necessary to eliminate ER backlogs and wait times;
- surgical services;
- adolescent mental health services;
- autism and other outpatient clinics; and
- community-based health services.

However, not all the impacts of these recent budget cuts and taxes have been immediate. Like a stone thrown into a pond, additional concentric ripples of job losses and service reductions have yet to reach shore. In fact, *many of the Medicaid rate reductions included in the recent state budget actions have not yet been implemented.* The data in *Compound Fractures*, therefore, represent only the preliminary impact of these budget cutbacks.



For policymakers, these data should serve as a stark and irrefutable indication of the real-world implications of their repeated budget actions. New York State's health care system has reached a tipping point of fragility. We can no longer base our policy and funding decisions upon the myth that health care providers can simply "absorb" funding cuts without real-world implications for everyday New Yorkers. In this fragile environment, each budget action taken to reduce health care funding will yield a commensurate loss of jobs and health care services, and any future budget cuts will most assuredly compound the still-pending total impact of prior actions.

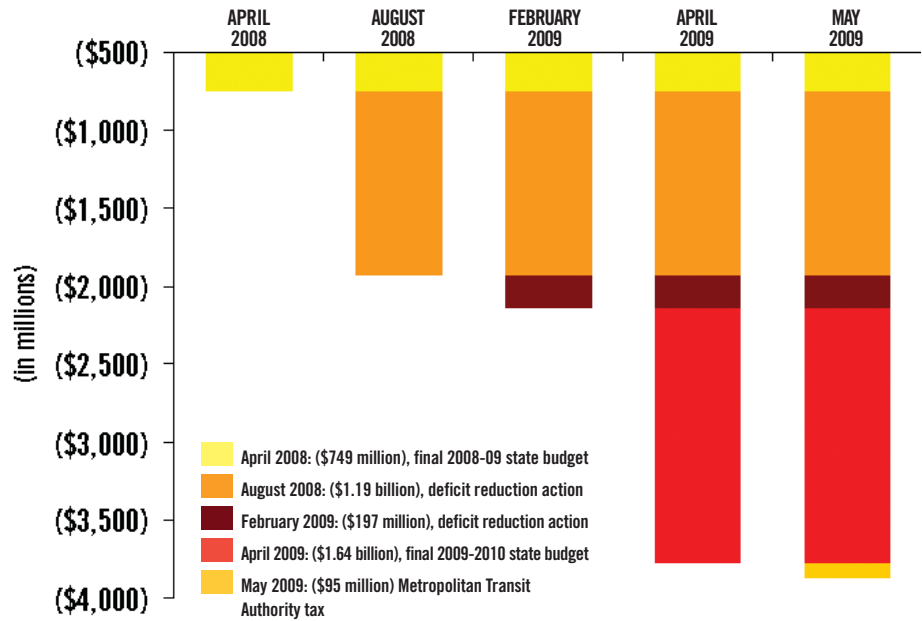
Therefore, it is a public health imperative to address current and future state budget shortfalls without making further cuts to health care funding. Any future revenue shortfalls must instead be addressed by revenue raisers, such as the previously proposed taxes on sugared beverages.

Health care providers, more than any other major sector of state spending, have been disproportionately impacted by actions to address state budget shortfalls. To help providers deal with the cuts already imposed, providers need relief from regulations that prohibit efficiencies and drive up costs, yet do not enhance patient care.

STATE CUTS

As the following chart illustrates, four distinct rounds of state health care cuts and taxes have resulted in a cumulative loss of \$3.87 billion to hospitals, nursing homes, and home health care providers from January 2008 through December 2010.

STATE CUTS: Impact on Hospitals, Nursing Homes, and Home Care of Last Four Budget Actions
Total Cuts and Taxes from January 2008 through December 2010: (\$3.87 billion)



These individual and cumulative totals represent the full impact of the budget actions, including any investments, such as in primary care, and all redistributions. Each total therefore is a true net impact.

A SIGNIFICANT AND GROWING IMPACT

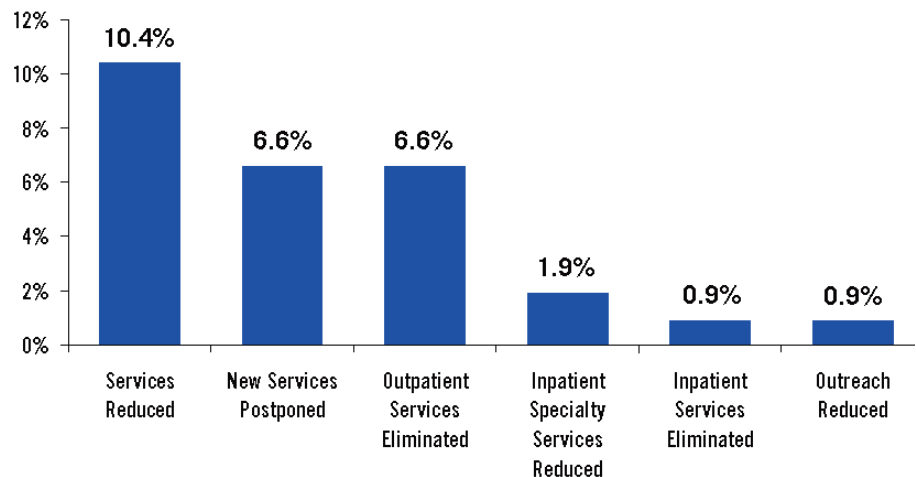
A recent survey of more than 100 hospitals across the state found a number of startling impacts that have resulted in large part from these repeated funding cuts. Of greatest concern:

Services Eliminated and Patients Deferring Necessary Care

- Seventeen percent of hospitals have eliminated or reduced health care services, including cancer treatment services, surgical services, psychiatric services, autism clinics, dental clinics, and others.
- Another 7% have postponed plans for necessary services.
- Thirty-seven percent of hospitals have reported significant reductions in scheduled surgeries, which represent thousands of patients who have postponed or cancelled procedures such as knee and hip replacements.

Patient Services Affected

Survey respondents reported the following impacts:

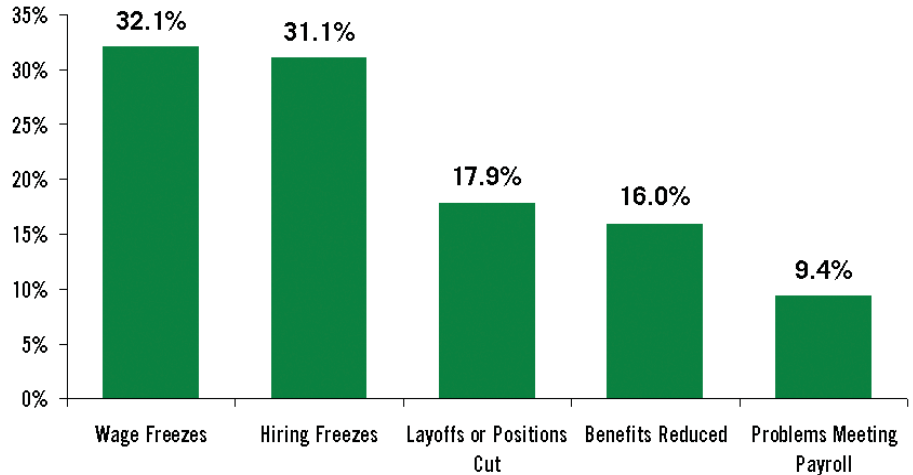


Thousands of Jobs Lost

- Eighteen percent of survey respondents have reported layoffs or job eliminations, resulting in thousands of health care jobs lost.
- More than 63% have halted hiring or have frozen wages.
- Sixteen percent have reduced employee benefits.
- Nearly 10% have reported problems just meeting payroll.

Effect on Employees

Survey respondents reported the following impacts:

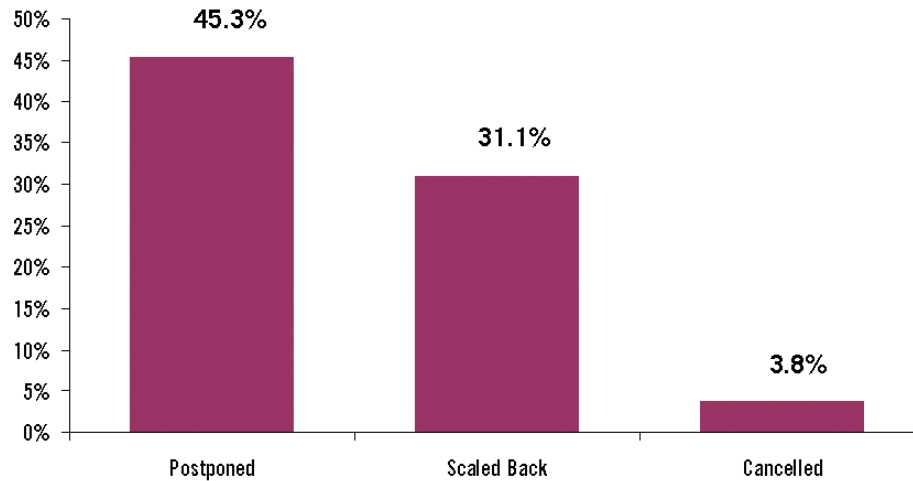


Capital Projects Scrapped or Postponed

- Forty-five percent of hospitals reported postponing capital projects, including numerous emergency room expansion and modernization projects, critical diagnostic and cancer treatment technology purchases, and a planned cancer treatment center expansion.
- Thirty-one percent have been forced to scale back existing plans despite continued demand/need for planned improvements.
- Four percent have been forced to cancel planned projects altogether.

Capital Projects Affected

Survey respondents reported the following impacts:

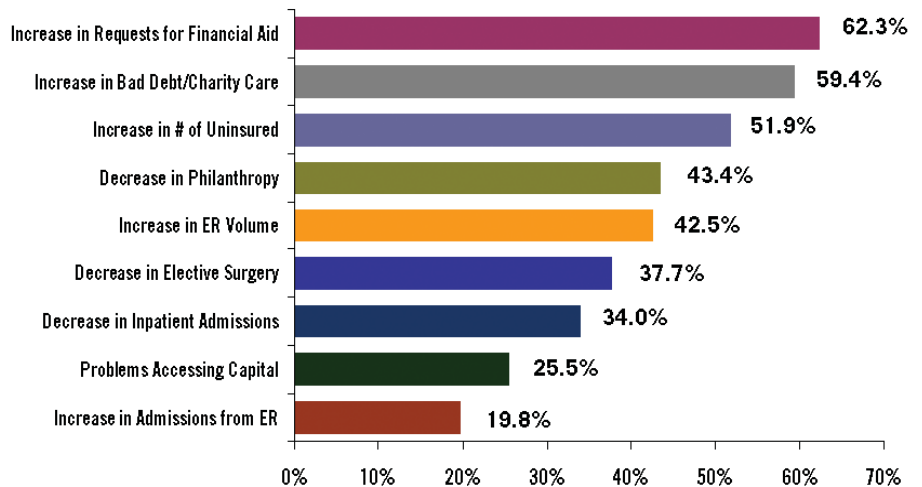


Economic Turmoil Increasing Service Demand While Exacerbating Fiscal Shortfalls

- Fifty-nine percent of hospitals reported an increase in bad debt and charity care patients (patients who do not/cannot pay for their care).
- Sixty-two percent reported increased patient requests for financial aid.
- Fifty-two percent reported an increase in the number of uninsured patients.
- More than 42% reported increases in emergency room volume as more uninsured use ERs as the provider of last resort.
- More than 43% reported a significant drop in philanthropy, adversely impacting their finances.

Economic Condition

Survey respondents reported the following impacts:



MANY PRIOR BUDGET ACTIONS NOT YET IMPLEMENTED

Several components of these prior budget actions have not yet been implemented. As these reimbursement changes take effect, totaling nearly \$263 million, more patient care services and job losses will occur.

The Financial Impact of Budget Actions Yet to Be Implemented

(Losses to New York's health care providers are in parentheses.)

Elimination of 2009 Trend Factor	(\$121,100,000)
Inpatient Rebasing and Rate Reductions	(\$236,000,000)
Elimination of Remaining 2008 Trend Factor (1.495%)	(\$57,600,000)
Elimination of Public Hospital Recruitment and Retention Grant Funding	(\$48,300,000)
Subtotal Cuts	(\$463,000,000)
Psychiatric Inpatient Rebasing and Rate Revisions	\$27,900,000
Impact on Hospitals of Primary Care Enhancements	\$36,400,000
Impact on Hospitals of Increased Physician Payments	\$60,900,000
Transition Adjustment for Inpatient Rebasing Losses	\$75,000,000
Subtotal Adds	\$200,200,000
Total Provider Reductions	(\$262,800,000)

The High Stakes of Federal Health Reform— As Much As \$12 Billion in Cuts

HANYS supports the goals of federal health reform: expanding access to health insurance coverage, while implementing thoughtfully designed Medicare payment



modifications that would enhance efficiency and quality, reduce costs, and reward provider performance excellence. However, we oppose exorbitant funding cuts that would weaken New York's already fragile health care system, diminishing the ability of hospitals and health systems to provide services in a way their communities deserve. Federal health care reform proposals currently under consideration in Washington, if implemented,

could result in as much as \$12 billion in Medicare and Medicaid cuts to New York hospitals, hospital-based skilled nursing facilities, and home health agencies over

the next ten years. While providing insurance coverage to currently uninsured people may generate a degree of new revenue for hospitals in some communities, some cuts would begin right away, whereas achieving greatly increased coverage could take years. HANYS is urging the New York State Congressional Delegation to work to reduce the level of reductions at stake for hospitals and continuing care providers.

While a worthy goal, coverage expansion is only one element of what should be our larger and far more relevant goal: improving the health status of millions of medically underserved Americans.

INSURANCE COVERAGE AN EMPTY PROMISE?

New York's health system is already imploding from a lack of resources. Twenty-nine hospitals have closed in communities throughout New York State in just the last nine years (ten in the last three years alone). Many areas of the state are experiencing physician shortages. Fifty-five percent 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.

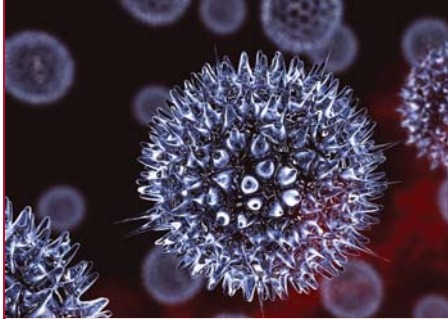
Meanwhile, the debate in both our state and federal capitals remains focused on providing coverage to the uninsured. While a worthy goal, coverage expansion is only one element of what should be our larger and far more relevant goal: improving the health status of millions of medically underserved Americans.

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 there is a 60-day waiting time for a needed service. Therefore, insurance expansion must be more appropriately understood as a means to achieve the more global goal of improving access to care.

There is a logical incongruity present when policymakers in both capitals seek to expand coverage while simultaneously proposing massive funding cuts that will further diminish the ability of health care institutions to provide the services and personnel necessary to deliver on the promise of insurance.

To achieve better health status for these vulnerable Americans, 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.

Massive government funding cuts are counterproductive to that end.



H1N1

HOW WILL NEW YORK COPE?

Hospital capacity in New York State declined significantly over the last decade as dozens of facilities closed and thousands of beds went “offline” and unavailable. Over the last 20 years, policymakers applauded hospital closures and staffing reductions as “cost containment” reform—overtly, as with the Berger Commission directives, or indirectly, as the natural consequence of a barrage of state and federal funding cuts.

State budget-driven capacity reductions now hold the potential for dangerous public health and disaster preparedness consequences. Health planners face the daunting threat of a potentially explosive influenza season poised to very quickly overburden our collective hospital capacity.

The threat is immediate. A single college in the western United States is reporting 2,000 cases of the H1N1 virus. The U.S. Centers for Disease Control and Prevention and other expert projections of potential increased ER and acute care bed need may be beyond our bed and staffing limits. As we have seen in recent media accounts, hospital emergency rooms in Queens were overwhelmed with flu patients earlier this year following the capacity reductions associated with the closure of two neighboring hospitals.

It is imperative that policymakers cease their pattern of continuous reductions in hospital rates. Instead, they should ensure adequate hospital margins and cash flow to cope with the potential for a surge in expenses and demand.

CONCLUSION

As the survey data in *Compound Fractures* clearly demonstrate, the status of the health care provider system in New York State has reached a level of absolute saturation with regard to funding reductions. There is no capacity to absorb additional cuts without inflicting serious harm.

It will be the patients, residents, and employees of our health care system who will be most directly impacted by any additional funding reductions because more cuts will directly yield more service eliminations and reductions, and thousands more unemployed health care workers.

In each of the state government budget actions discussed in this document, health care providers have endured disproportionate cuts—greater than those in any other major sector of state spending.

It is therefore a public health imperative that a means other than health care cuts be identified to address any current or future state revenue shortfalls. These could include proposals such as taxes on sugared beverages, and/or regulatory reform activities that will yield substantial health care savings.

HEALTHCARE ASSOCIATION OF NEW YORK STATE

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