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Greater New York Hospital Association pitches $2.5 billion plan to bring safety net hospitals into larger systems

$500 million would be paid to larger systems for five years to "adopt" distressed facilities; naysayers fear power spike for "adopter" systems.

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Photo by Google Earth

The Greater New York Hospital Association is pitching a $2.5 billion plan they say will ensure the financially distressed safety net hospitals throughout the state survive by paying the larger healthcare providers to integrate them into their own systems.

The proposal would have the state paying those larger, wealthier systems $500 million a year for the next five years as an incentive to acquire the safety-net hospitals, essentially taking them "under their wing" in the hopes of keeping doors open to the communities that depend on them, the association said.

New York State recently identified 28 safety-net hospitals around the state who are in financial distress. Some the criteria used to designate these facilities included the hospital's status as a safety net facility, having fewer than 15 days cash on hand, having no remaining assets to monetize, and having exhausted all other avenues of obtaining financing elsewhere.

Kenneth Raske, GNYHA President, said right now there are only two options: continue state subsidies, which cost the state roughly $400 million a year, or let the hospitals fail, leaving already vulnerable populations without needed healthcare services. Raske said with the new proposal, the state will actually save money in the long run because they will no longer bear the burden of subsidizing the struggling hospitals.

"What we have posited is a third option which is to create incentives for major teaching hospitals and academic health centers to adopt these institutions that are struggling and then adapt the services for their communities to make them survivable long-term… many of the larger systems have been looking at doing this without state help but concluded it was too risky. This will help eliminate some of that risk," Raske said.

Brookdale University Hospital in Brooklyn is one of the 28 facilities on the watch list who are dangerously dangling over the edge of a financial cliff. President and CEO Mark Toney, who is a member of the GNYHA board of directors, said they are subsidized by the state in excess of $100 million a year, and are 86 percent dependent on Medicare and Medicaid as a payer. He said their revenues cover only the wages and benefits of employees, leaving many of the other operating costs uncovered thanks to their reliance on Medicare and Medicaid reimbursement.

"As the Medicaid-Medicare rates continue to decline, which are our revenues, our expenses continue to increase, because people do expect to have wage increases. We have labor contracts that require wage increases. The cost of pharmaceuticals, which is a key component of the changing healthcare base of today, is continuing to escalate. Those costs are going up and the revenues are going down and so yes you see more and more hospitals over time becoming financially distressed or dependent upon the state of New York for financial support," said Toney.

He said Brookdale, which is a stand-alone facility, would like to attract a larger system to take them in and help them improve, but their financial state makes them too risky to acquire, and keeps would-be suitors at bay.

"It jeopardizes those potential partners and their bond ratings. Their boards have a fiduciary responsibility to ask why they are adopting a safety-net hospital," said Toney.

That's why he supports the GNYHA proposal. "I kind of call it a dowry. To attract organizations to be willing to partner with the hospitals that are in underserved communities so that we can try to reduce the cost structure but improve the quality of care and the patient experience. We need to serve these communities and this is an opportunity to be able to assist the systems in the transition period over," Toney said.

But some say that dowry is too high, and the plan would create other issues and even drive up the cost of care. The New York Health Plan Association has blasted the proposal, saying healthcare dollars are already stretched thin and throwing even more money than the pending state budget suggests at the distressed hospitals may not be the answer.

"It's a question of why do we continue to send money into these hospitals when that doesn't seem to fix them. and there's a tremendous amount of money in the state budget now for the distressed hospitals," said Leslie Moran, senior vice president of NYHPA.

Additionally, Moran says they worry that larger systems would yield too much power once they adopt the safety-net hospitals, and that studies have shown consolidation can actually end up driving cost increases.

"We're very concerned that this is a way of strengthening and doing more consolidation which would give the hospitals even greater market power and negotiating power," Moran said.

Published reports show Gov. Andrew Cuomo's budget calls for $450 million in hospital funding for the 28 watchlist facilities in the next fiscal year, which starts April 1. That's $50 million less than GNYHA is asking for per year in their proposal. The proposed state budget also includes a separate $1.2 billion restructuring finance program for healthcare renovations and another $700 million set aside for overhauling medical facilities in central and east Brooklyn.

Cuomo's office did not respond to numerous requests for comment on his budget, the GNYHA proposal, or the future of funding for safety-net hospitals.

But Raske says eventually, the state will stop giving financial support for struggling hospitals, and there needs to be a plan in place before then.

"At some point the state will have a diminished appetite to continue to provide funding for these institutions, albeit the economy deteriorating such as a recession, that would prohibit it from doing it. We've seen this happen time and time again at both the state and federal level. That they abandon socially meritorious projects when they run into a severe budget deficit due to a recession. So the long run is by no means a guarantee that they would continue to reach the current subsidies," Raske said.

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