



**2012 Year in Review:  
Recovering and Reforming for the Future**

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## **Introduction**

As has become customary for me at the February Board meeting, I report on the general state of HHC, review some of the accomplishments and challenges from the past year, and relate our most recent work to our strategic agenda moving forward.

As you know, last year we continued to confront formidable challenges to our system and our mission. As we worked hard to weather the ongoing fiscal storm in healthcare that has driven our budget into deep deficit, we came up against a literal storm of historic magnitude that inflicted heavy damage. Superstorm Sandy battered several of our facilities, forcing the evacuation of hundreds of patients (some critically ill), and disabling two of our hospitals for an extended period of time. With two major facilities closed for many weeks, we suffered staggering revenue losses and still have much work to do to fully restore the impacted facilities and to better protect them from any further mega-storm damage going forward.

However, before the year-end storm diverted so much of our attention and resources, we achieved a number of important milestones that narrow our budget deficit, further the transformation of our system consistent with the demands of healthcare reform and position us to better serve our patients and communities in the future.

## **Hurricane Sandy**

Bellevue Hospital and Coney Island Hospital, among other non-HHC hospitals, were severely damaged during the storm, requiring us to evacuate hundreds of patients, including those who were critically ill on ventilators and more than 15 NICU babies.

The Coler campus of the Coler-Goldwater Specialty Hospital and Nursing Facility on Roosevelt Island was also hard hit, losing power, heat and hot water for an extended period. Although nearly 100 of Coler's most vulnerable patients were transferred to the Goldwater campus, the remaining residents remained sheltered at Coler until power, heat, and hot water were ultimately restored through mobile emergency generators and temporary boilers.

Other HHC hospitals and nursing homes received evacuated patients from Bellevue and Coney Island, as well as patients and residents from non-HHC hospitals and nursing homes damaged by the hurricane. The temporary redeployment of Bellevue and Coney Island staff to other HHC facilities helped to provide the extra hands needed to meet the surge in patient volumes elsewhere.

Both Bellevue and Coney Island worked quickly to restore, first, outpatient services and then limited emergency department services. Coney began to accept inpatients in the middle of January and has now restored most of its services; however, its emergency department capacity remains limited due to the extensive rebuilding that is needed. Bellevue fully re-opened on February 7 and has resumed its Level 1 Trauma Center status.

The Coler campus continues to operate on temporary electrical switchgear and emergency generators but steam distribution from the local co-generation plant has been restored and has now replaced the temporary boilers. The permanent repairs necessary for restoration of Con Ed electrical services at Coler are on track to be completed ahead of the air conditioning season.

Central Office operations also sustained damage from the storm. More than 1,200 staff members working in key areas such as Finance, Home Care, IT, and MetroPlus were displaced from their severely disabled office building at 160 Water Street. Despite being deployed among several sites across the City, these resilient and dedicated employees kept our core functions operational.

Although we have completed the first phase of our recovery from the storm by reopening our most heavily damaged facilities, there is still much work to be done to complete permanent repairs and to protect the facilities against any future storms of this magnitude. We are grateful that the City has appropriated \$710 million as an advance against anticipated FEMA reimbursements for repair, restoration and risk mitigation efforts related to HHC facilities.

We remain very concerned, however, about the roughly \$180 million dollars in lost revenue incurred during the period when our Bellevue and Coney Island facilities were fully or partially closed, as these losses are not FEMA-reimbursable. If not addressed, this loss will severely destabilize our finances going into next fiscal year. We remain hopeful that a portion of the several billion dollars appropriated by Congress recently in storm-related Community Development Block Grant funds can be tapped to cover these losses.

In the months leading up to the next hurricane season, we will continue to reposition critical systems within our vulnerable facilities to higher elevations and take other steps to better protect those facilities from any similar storm surge. However, some of the mitigation efforts, especially at Coney Island hospital, which remains vulnerable to a re-flooding of its first floor, will be longer term projects of significant cost and will require confirmation of FEMA reimbursement eligibility or commitment of other capital funds.

### **Confronting the Financial Challenges**

The cost containment pressures for healthcare providers, and especially for safety net systems like HHC, continue to escalate. Nearly three years ago, projecting a very large future deficit, we laid out and began to implement a four-year cost containment and restructuring plan, “The Road Ahead.”

#### ***Continuing on the Road Ahead***

This past year we completed the implementation of the Crothall contract for the management of environmental services and the JCI contract for the management of plant maintenance services. Both of these will generate significant long-term savings. In addition, we contracted with a vendor to provide dialysis services and expect to complete implementation of that contract across our system by the end of this calendar year. We project that this contract will ultimately increase our dialysis capacity by 35% while saving an estimated \$146 million over the nine-year agreement period. We will continue to guarantee access to dialysis services for all patients without regard to insurance or

immigration status, and no HHC staff member will lose employment as a result of this contract.

We also have submitted to the federal Health Resources and Services Administration (HRSA) our application to confer federal-qualified health center (FQHC) status on our six Diagnostic and Treatment Centers. We expect that HRSA will grant our application by the start of the next fiscal year. We continue to project that FQHC status will result in at least \$25 million in additional revenue for services HHC provides at our DT&Cs.

The first phase of our work toward lab consolidation, focused on equipment and reagent standardization, was largely completed this past year and is now yielding about \$7 million in annual savings. The second phase of the lab initiative, which will consolidate our four core laboratories into a single shared core lab, will be submitted to the Board for its approval imminently. Once fully implemented, this consolidation will yield further savings of at least \$20 million annually.

Our preparation for the relocation of our Goldwater Skilled Nursing Facility (SNF) and Long Term Acute Care Hospital (LTACH) operations at the end of this calendar year to the new Henry J. Carter facility in Harlem has been progressing on schedule. As we have placed lower acuity Goldwater residents in appropriate community residences this past year, the census at Goldwater has been steadily reduced toward an ultimate decrease of several hundred long term care beds. This is consistent with the state emphasis on offering patients in need of long term care support at home, whenever feasible, and with overwhelming patient preference for community-based options. Toward this end, the completion of housing on the Metropolitan Hospital campus early next fiscal year for 175 individuals discharged from Coler-Goldwater. Residents will be linked to supportive services at Metropolitan Hospital.

Our four-year cost containment and restructuring plan sought to close our budget gap by \$600 million and reduce the size of our workforce by 3,700 FTEs, while retaining most of our service capacity. At this point - more than two and one-half years into The Road Ahead -- we have reduced our workforce by more than 3,400 FTEs, and we project that

we will achieve \$567 million of our targeted \$600 million budget gap reduction by July 1, 2013.

HHC is in the process of refinancing \$141 million in debt to achieve an estimated \$30 million in debt service savings. Moody's Investor Service, Standard and Poor's Rating Services, and Fitch have sustained HHC's Aa3/A+/A+ ratings. These ratings reflect HHC's strong support from the City of New York, its essential role as a safety net healthcare provider, and its strong management and strategic plan. These ratings should support the sale which is anticipated later this month.

These impressive fiscal achievements have narrowed a projected budget shortfall between our revenues and expenses so large that it threatened the viability of our mission. This progress has not been easy, and it is a tribute to the commitment of our corporate and facility leadership, as well as the dedication and hard work of our co-workers throughout HHC, that we have been able to continue meeting the needs of our patients and communities with a workforce that has shrunk by 8%.

Despite this boost in productivity and considerable progress in reducing over all expenses, further cuts to reimbursement at the federal and state level, and spiraling expenses beyond our control, including pensions, still leave us facing a residual structural deficit of several hundred million dollars as we go into the next fiscal year. Some of the cost containment initiatives in our four-year plan that remain to be implemented will contribute toward the reduction of that residual deficit. In addition, the possible granting of federal funds under the state's pending 1115 waiver related to the redesign of the Medicaid program (which envisions a significant five-year grant to public hospitals) would help greatly.

### ***New Revenue Opportunities***

There are also opportunities to generate more revenue going forward. First, the expansion of Medicaid coverage under the Affordable Care Act, although modest in New York by comparison to other states that have set less generous Medicaid eligibility thresholds, will bring coverage to some currently uninsured HHC patients starting in

January 2014. In addition, our health plan, MetroPlus, will continue to grow both its Medicaid and Medicare enrollment, and it has begun to enroll members into its newly licensed Long Term Managed Care (LTMC) line of business. As an LTMC plan, MetroPlus's goal is to help the chronically ill or disabled, who would otherwise be eligible for nursing home admission, to stay in their homes and communities as long as possible. Care at home, when feasible, is generally a cost effective alternative to nursing home admission and is most often a patient's preference.

Further, in anticipation of the imminent transition of all behavioral health services to an integrated managed care model, MetroPlus has been meeting with community-based behavioral health providers to identify a robust specialized provider network as it prepares to apply as a Mental Health Special Needs Plan or to integrate behavioral health into its mainstream plan.

MetroPlus is also preparing to participate in the Fully Integrated Dual-Eligible Advantage (FIDA) pilot program to be launched by the State, and to participate in the new federally subsidized Health Insurance Exchange that will start operating at the end of this year. All of these new lines of business for MetroPlus constitute additional revenue opportunities, and equally important, represent a shift away from fee-for-service and toward a capitated reimbursement system that values and rewards the effectiveness of service delivery in promoting better health.

### **Operating More Efficiently: Breakthrough**

The challenges that we continue to face in healthcare place a premium on two critical organizational competencies: the ability to engage in continuous improvements that increase efficiency and effectiveness, and the ability to drive enterprise-wide adaptive change. Breakthrough -- HHC's version of a process improvement methodology developed in the manufacturing sector and commonly called "LEAN"-- has been our means of deepening our organizational abilities on both of these fronts.

Five and half years into our active involvement with Breakthrough, nearly 7,000 staff have engaged in training, rapid improvement events and other planning and problem

solving activities to better our system. The more than 1,200 rapid improvement events -- intensive employee driven activities focused on redesigning care -- conducted across a wide variety of operations within HHC have shown outstanding results where it matters most - in the care of our patients. Most importantly, the staff -- from unit nurses to chiefs of service to managers, clerks, residents, social workers, and senior vice presidents -- have invested their time and talent to learn and spread new ways to solve often long-standing and complex problems. To accomplish this, they focus on eliminating waste, standardizing practices, and collective creativity. Over the past 19 months, our Breakthrough activities generated more than \$85 million in new revenue and cost savings, for a cumulative total financial benefit of \$280 million.

Going forward, we are focusing on how we bring to scale across our entire system the Breakthrough improvements achieved in key areas of operation within individual facilities and networks. Increasing proficiency in developing improvements of common operational activity at one facility and then bringing those to scale for the benefit of the entire organization will be invaluable as we continue to adapt to rapid changes in the healthcare environment.

### **Transforming the Healthcare Delivery System**

HHC facilities served 1.4 million New Yorkers last year, including 479,000 without insurance. This service encompassed 220,000 inpatient stays, 1.2 million ED visits, and more than 5 million outpatient visits. Even as we continue to offer a prodigious volume of essential services to our patients and communities, and work to make our system more efficient in the face of intense cost containment pressures, we also must work to transform our entire healthcare delivery system to meet the demands of evolving healthcare reform.

The federal government is steadily moving the Medicare program toward value-based purchasing, with reimbursement amounts increasingly tied to the efficacy of services rendered. Financial penalties and rewards are now imposed based upon comparative rates of preventable readmissions, adherence to targeted evidence-based clinical

practices, and patient satisfaction scores. In addition, Medicare reimbursement is increasingly being tied to patient outcomes through “bundled payment” initiatives, the Shared Savings Program available to designated Accountable Care Organizations, and Medicare managed care programs.

At the state level, New York continues to move forward aggressively with its Medicaid Redesign Program which is intended to provide “care management for all”. To achieve this goal, virtually all Medicaid recipients, including those with long term care needs, those with serious and persistent mental illness, and others previously excluded, will be transitioned into a managed care model over the next two years.

Both our federal and state governments have declared their goal of moving the healthcare system toward the achievement of the Triple Aim: better care for the individual patient, better health for the broader community, and lower per capita costs. The Triple Aim encapsulates the central challenge of healthcare reform for providers: the need to simultaneously improve patient and population health, even as we lower the cost -- or, at least the rate cost increase -- of healthcare.

HHC’s long-standing commitment to, and capacity for, delivering robust primary and preventive care serves us well as we position the organization to achieve the Triple Aim and to succeed under healthcare reform. Indeed, the close partnership between our facilities and our health plan, MetroPlus -- which last year again received the top rating for quality and member satisfaction -- gives us a competitive advantage as the reimbursement system (at least for Medicaid) begins to pivot more decisively toward a capitated model. During the past year, we have continued to work on transforming our service delivery model and on building the care management infrastructure essential as managed and “accountable” care reimbursement approaches become more dominant.

***Information Technology: Improving Quality through Management and Coordination of Care and Data***

HHC was an early adopter of electronic health record (EHR) technology and has used that technology to improve clinical care -- and garnered two related national awards

along the way. Today's challenges related to the management and coordination of care going forward clearly require a state-of-the-art EHR system with more robust decision-support, patient portal capabilities and other advanced functionality. Accordingly, after an exhaustive review of the available products, HHC entered into a long-term contract with EPIC as its new EHR system. The installation of a new EHR across our vast organization is a complex, multi-year effort, but we expect to have our first facility up on the new EHR application within the next 18 to 24 months. Full implementation will take four to five years.

In the interim, we continue to leverage our existing EHR, QuadraMed, to meet the federal "Meaningful Use" requirements that will ultimately entitle us to roughly \$190 million in federal funds over a three-period to support EHR adoption and development. Last year, all of our facilities met the requirements for Meaningful Use, Stage One and we have already drawn down more than \$60 million of the anticipated \$190 million. These funds will be used to offset some of the costs associated with the acquisition of our new EHR.

We also are moving forward aggressively with several other information technology initiatives that will provide critical support to the transformation of our clinical service delivery. Last year we acquired, and this year we will complete the implementation of, a specialized software application that will enable the care management of patients across all settings, both within our system and outside of it, under a single comprehensive care plan. By June of this year, we also will have completed the installation of our new Soarian appointment scheduling system that will allow us to plan for the ultimate consolidation of our appointment call centers. And by the end of this year, we expect to complete installation of a centralized system that will streamline the credentialing process for our physicians and enable us to credential providers across our entire system under one application.

### ***Redesigning Ambulatory Care – PCMH and Health Homes***

Building on a decade of work around ambulatory care redesign, our broad array of screening services and preventive care, and our longstanding focus on more effective

chronic disease management, HHC has achieved the highest available level of NCQA certification of all of its primary care sites -- encompassing more than 600 primary care providers -- as Patient Centered Medical Homes (PCMH). Patient Centered Medical Homes, which match each patient with a dedicated team of providers who offer coordinated, comprehensive care, also earn additional reimbursement. For HHC, PCMH certification means about \$25 million in additional annual revenue, which we are reinvesting in expanding access to primary care. We will need to continue to deepen our PCMH capabilities even further this coming year as the bar for re-certification has been raised and all of our sites must be recertified.

In addition to the care management and care coordination capabilities that are inherent in the PCMH model, we also have been working on piloting the further infrastructure necessary to better manage and coordinate the care of patients with more complex needs, including those with multiple chronic disease and/or severe and persistent mental illness. Under the federal Affordable Care Act, states have the ability to seek time-limited federal funding to cover 90% of the cost associated with establishing "Health Homes" which undertake the care management of patients with complex conditions who are high utilizers of healthcare resources. Under New York's Health Home initiative, HHC and MetroPlus have been jointly designated and funded as a Health Home in each of the four most populous boroughs, the only entities designated in more than one borough. As a Health Home, we will continue to build the infrastructure necessary to better manage and coordinate care to especially vulnerable populations, link these complex patients to appropriate outpatient services, improve their health status and outcomes, and decrease their need for emergency department visits and hospital admissions. We began enrolling patients as a Health Home in August 2012.

### ***Becoming an Accountable Care Organization (ACO)***

Our foundational PCMH and Health Home work has been critically important in our successful application this past year to participate in the Medicare Shared Savings Program as an Accountable Care Organization (ACO). Under this federal program, we offer Medicare beneficiaries better coordination and integration of all their healthcare

services and focused support to more effectively manage their chronic disease. If we reduce their need for expensive emergency department or inpatient services, we have the opportunity to share in those Medicare savings. The affiliate organizations employing the large majority of our physicians are partners with us in our ACO and they will share equitably in any Medicare savings that result from our collective efforts to improve the health status of these Medicare patients.

The work that we have done this past year to embed care managers in our emergency departments to reduce avoidable admissions, and in our inpatient units to reduce preventable readmissions after discharge, gives us valuable experience for building our ACO capabilities.

### ***Pay for performance incentives for physicians***

All of these efforts to fundamentally change care delivery to achieve greater efficiency and better patient outcomes requires much closer collaboration with our physicians and aligned financial incentives. Toward this end, last year HHC successfully negotiated new provisions into its physician affiliation agreements that will reward doctors with up to \$59 million in incentive payments over the next three years. Payments will be made when physicians meet specific goals related to adherence to evidence-based clinical care, greater efficiency, higher patient satisfaction, and better patient outcomes. These performance-based incentives replace routine cost-of-living increases and “productivity-based” incentives that focused on volume or intensity of services.

When coupled with potential earnings related to shared savings from our ACO services, the total pool of performance-based financial incentives for physicians becomes significant. This will assist our efforts to reinforce the type of collaboration that can improve patient and population health outcomes and reduce unnecessary utilization of acute care services, i.e., help meet Triple Aim goals.

### ***Quality of Care***

We have ample evidence from this past year that we are becoming more adept at implementing best practices across our system and achieving system-wide improvements in important aspects of care. For example, our work to identify hospital patients at increased risk of readmission and to provide them with additional support after discharge has reduced readmissions for congestive heart failure and heart attack significantly.

Another of our clinical improvement priorities was to reduce our rates of Central Line Associated Blood Stream Infections (CLBSI) and Catheter Acquired Urinary Tract Infections (CAUTI). The most recently available data show that by late 2012 CLBSI rates were more than 25% lower than at the beginning of the year, and CAUTI rates were reduced by more than 75%. These reductions in hospital-acquired infections represent very meaningful advances in patient safety across our system.

### ***Modernization of Facilities***

Harlem Hospital opened its new, \$325 million mural pavilion last September. Apart from the state-of-the-art inpatient units, the Pavilion also features restored historic murals by WPA-era African-American artists. Those murals are now on exhibit in a magnificent first floor gallery, and vivid images from one of the murals are reproduced across the block-long glass façade of the new pavilion. The final phase of the current modernization effort at the hospital -- a renovated and expanded Emergency Department -- should be substantially complete by July.

The new Henry J. Carter Specialty Hospital and Nursing Facility will be located on Madison Avenue and 122nd Street. It will be the new home of the Goldwater Specialty Hospital and Nursing Facility currently located on Roosevelt Island. This Harlem-based long term care hospital and skilled nursing facility, consisting of nearly 400,000 square feet of combined new and renovated space, will be completed in the fall of this year.

On the lower east side, HHC's \$250 million Gouverneur Major Modernization project will expand local access to needed ambulatory care services, as well as increase

Gouverneur's skilled nursing facility capacity from 210 to 285 beds. The first stage was completed last year, and the final stage should be completed by March 2014.

The renovation and expansion of Lincoln Hospital's Emergency Department -- the busiest in our system -- is on schedule for substantial completion by September.

HHC remains firmly committed to build a \$23 million state-of-the-art Diagnostic and Treatment Center at 155 Vanderbilt Avenue on Staten Island. The project will be put out for bid in May 2013. Construction will begin this summer and the facility should be open to serve patients in February 2015. The 21,000 square foot, three-story building will provide adult and pediatric primary care, diagnostic and specialty care, and behavioral health services.

### **Looking Forward**

Carrying out our responsibilities as the primary safety net for so many vulnerable New Yorkers is an awesome task, and one that ultimately requires strong support by the public and government at all levels. We appreciate the unwavering support that we have received from our Mayor, City Council, and other elected officials as well as from our board of directors, our partners in labor, our community advisory boards and auxiliaries, and many community-based organizations that care about our mission.

I am proud, especially after Hurricane Sandy, of the work that our dedicated HHC staff performs every day across our city to surmount challenges and meet the healthcare needs of our patients. The path ahead will continue to be formidable and the quickening pace of change related to healthcare reform will be stressful. However, our past accomplishments demonstrate our collective resilience, resourcefulness and commitment to mission. And that is a formidable force of its own.