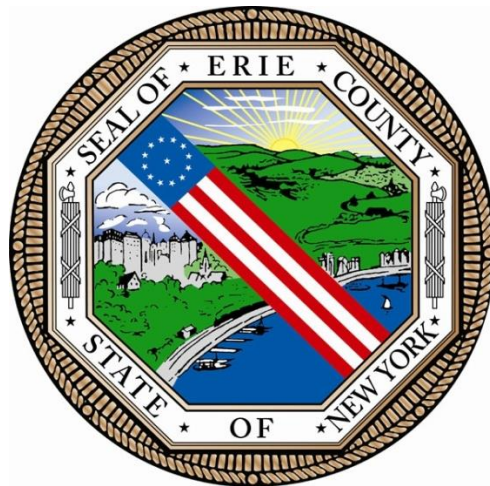


November 2018

A Report on IGT Payments to ECMCC



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November 26, 2018

Erie County Legislature
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Dear Honorable Members:

The Erie County Comptroller's Office has completed a report on Intergovernmental Transfer (IGT) payments from Erie County to the Erie County Medical Center.

Our objectives were to:

- Understand the history of IGT payments owed by Erie County to the Erie County Medical Center.
- Understand factors that may impact IGT and other payments made by Erie County to the Erie County Medical Center in both the short and longer term.
- Analyze the impact of IGT payments on Erie County.

To accomplish these objectives, we reviewed budget information, as well as literature on the subject of Disproportionate Share Hospital payments.

As a result of our examination, we recommend implementing a plan which more accurately budgets for IGT payments to ECMCC without reliance on fund balance on an annual basis.

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A BRIEF HISTORY OF THE ERIE COUNTY MEDICAL CENTER

Erie County Medical Center has a long history of serving individuals in Buffalo and Erie County. In 1905, The Municipal Hospital was built to serve patients suffering from smallpox. By 1918, the scope of its services expanded to provide services for nearly every type of medical affliction. Further, the number of patients had greatly increased, especially after the Erie County Almshouse and Infirmary burnt to the ground. The hospital moved to a new location on Grider Street and opened as the Buffalo City Hospital. In 1939, the hospital renamed itself as the Edward J. Myer Memorial Hospital, after its co-founder and first chairman.

In 1978, a new hospital was built on Grider Street and named the Erie County Medical Center. At that time, discussions occurred regarding the possible sale of Erie County Medical Center to an entity which also provided hospital services. Ultimately, there was not enough political support to sell the hospital.

In 1996, a county-wide referendum was voted on to consolidate the Erie County Home, which provided services similar to those provided in a nursing home, with the Erie County Medical Center. The referendum was successful and the entities were consolidated. The consolidated entities became the ECMC Health Network.

In 2004, the ECMC Health Network became a health network autonomous from Erie County as a public benefit corporation renamed the Erie County Medical Center Corporation. The corporation is governed by fifteen voting members, eight of whom are appointed by the Governor and seven of whom who are appointed by the County Executive. Erie County remains responsible for certain ECMCC operating costs. Further, if the corporation ceases to exist, ownership of the property and operations of the hospital reverts back to Erie County.

On March 25, 2010, Erie County entered into an agreement with ECMCC, whereby the county would provide \$16.2 million to ECMCC annually as a subsidy for operational expenses. As part of the agreement, Erie County acknowledged that it would have to pay more than \$16.2 million to ECMCC if Disproportionate Share Hospital (DSH) and Upper Payment Limit (UPL) obligations totaled more than \$16.2 million. DSH is money owed to the hospital for uncompensated medical expenses, typically for individuals who seek treatment without an ability to pay.

In 2017, ECMCC borrowed money to build a new operating room, as well as make other improvements to its facilities and operations. Because of the Erie County Fiscal Stability Authority's ("ECFSA") superior credit rating, ECMCC arranged for the ECFSA to borrow the money and channel it to ECMCC. Erie County remains liable for payment of the loans should ECMCC be unable to meet its obligations at the agreed upon time.

PATIENT PROTECTION AND AFFORDABLE CARE ACT

On March 3, 2010, the Patient Protection and Affordable Care Act (commonly known as “Obamacare”) was signed into law. The law required every American to secure health insurance by March 31, 2014, or face an income tax surcharge. One of the primary goals of the Patient Protection and Affordable Care Act was to reduce medical costs by opening access to preventative services, thereby reducing the need to seek treatment in emergency rooms. Decreasing the number of visits to emergency rooms, as well as having every patient insured who does visit the emergency room, would in theory reduce uncompensated care costs to ECMC.

The Patient Protection and Affordable Care Act included federally provided allocations for DSH payments. These payments help to offset the costs of providing uncompensated care to patients. As DSH applies to Erie County, the County matches the amount paid by the federal government to ECMCC. For example, if the amount of reimbursable services provided by ECMC is \$60 million, Erie County would pay \$30 million.

Given the goal of achieving universal health insurance coverage, it was understood that DSH would be phased out. Over the past three years, Congress has voted to delay phasing out of DSH payments because the goal of universal health insurance coverage was not met and hospitals continue to provide uncompensated care to patients.

Federal allocations under the Patient Protection and Affordable Care Act for DSH payments were most recently scheduled to begin phasing out on October 1, 2017 and be totally eliminated by 2025. On February 9, 2018, Congress passed and President Trump signed a budget bill, part of which delayed the phase out until October 1, 2019. A group of House of Representatives members is concerned that the initial impact of phasing out DSH, when implemented, will cause safety net hospitals, such as ECMC, to face \$2 billion in shortfalls nationwide. The group of Congressmen expressed concern that such an impact would force safety net hospitals to shut down across the nation. Of course, in this worst case scenario, ownership and operation of ECMC, along with its losses, would revert back to Erie County.

It should be noted that ECMCC projected to budget \$5,726,000 in excess of revenues over expenses for 2019. This may or may not be enough cover the reduction in DSH payments to ECMCC for 2019. These same projections predict an excess of revenues over expenses of \$9,690,000 in 2023, the same year in which ECMCC projects DSH revenue of \$76,713,000. If the phase out proceeds as outlined in the Patient Protection and Affordable Care Act, ECMCC’s actual revenue for DSH will be only a fraction of that amount. This could result in massive losses for ECMCC, requiring significant involvement of Erie County resources and money.

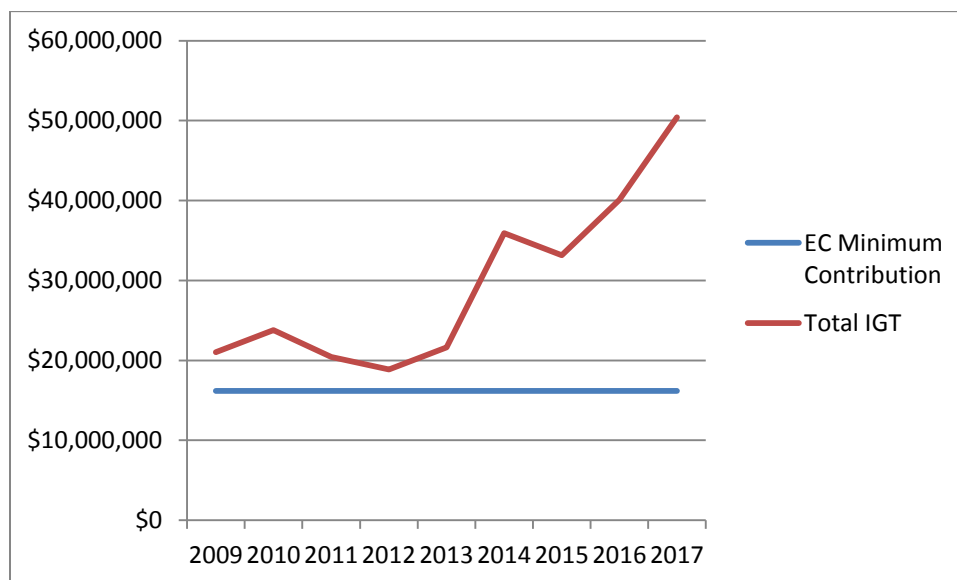
IGT PAYMENTS AND PROJECTIONS

Each year, Erie County makes multiple payments to ECMCC for uncompensated services provided by ECMCC. This combination of payments for DSH and UPL is often referred to as an Intergovernmental Transfer payment (IGT). As stated earlier, Erie County has agreed to pay ECMCC at least \$16.2 million as a subsidy for operational expenses. If the amount owed to ECMCC is greater than \$16.2 million, Erie County will pay such an amount to ECMCC.

The amount of IGT paid to ECMCC has exceeded \$16.2 million every year since 2009, despite the increase in the number of individuals covered by some form of health insurance in Erie County. The total IGT amount paid to ECMCC has more than doubled between 2009 and 2017.

<u>Year</u>	<u>Total IGT Amount</u>
2009	\$21,031,992
2010	\$23,799,954
2011	\$20,431,286
2012	\$18,883,020
2013	\$21,618,789
2014	\$35,921,903
2015	\$33,163,844
2016	\$40,069,172
2017	\$50,418,549

Graphically, these amounts depict a significant upward trend in IGT payments made by Erie County to ECMCC:



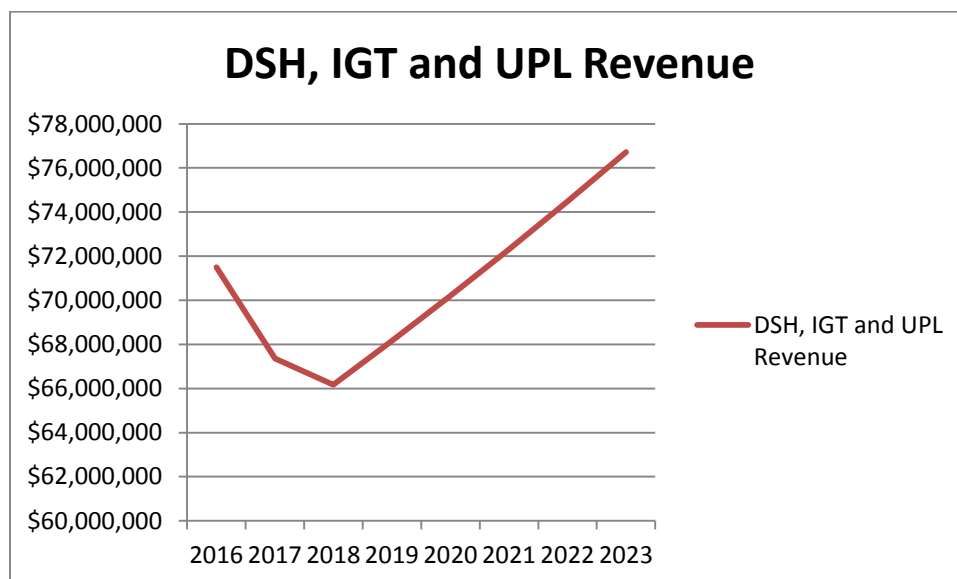
Total IGT Payments Made by Erie County to ECMCC

BUDGETING FOR IGT

ECMCC has been helpful to Erie County in recent years by allowing payments typically due toward the end of the year to be delayed until January. This assists the county in managing cash flow, as well as taking steps to address increasing IGT payments beyond what has already been budgeted. When ECMCC secured financing to build a new emergency room, as well as make other improvements, it did so through the Erie County Fiscal Stability Authority (ECFSA) to take advantage of the ECFSA's ability to borrow money more cheaply than ECMCC could. However, ECMCC did not retain any of these savings to improve healthcare at its facilities. Rather, it allowed Erie County to keep the savings in the amount of \$17 million. Due to this money, as well as higher than expected sales tax revenue, it is anticipated that any payments owed to ECMCC in 2018 will not need to be delayed until 2019.

PROJECTED IGT EXPENSES

Each year, ECMCC projects revenue and expenses for a period of six years. Their projections see revenue from DSH, IGT and UPL growing in the upcoming years, from \$67,363,000 in 2017 to \$76,713,000 in 2023. These projections follow an audited DSH, IGT and UPL revenue of \$71,500,000 in 2016. These are not the total that Erie County owes to ECMCC. However, as total revenue to ECMCC from DSH, IGT and UPL grows, so will the amount that Erie County owes to ECMCC. Further, if the percentage of funds reimbursed by the federal government decreases, the responsibility of Erie County will grow by that amount.



CONCLUSION

Each year, Erie County must pay IGT to ECMCC in an amount that is at least \$16.2 million. The amount actually paid to ECMCC has been significantly higher over the last several years. In fact, after a slight dip in 2017 and 2018, the amount is expected to grow through at least 2023, the last year for which ECMCC has made projections.

Although the actual total amounts owed to ECMCC for uncompensated care will increase, Erie County's payments to ECMCC as a percentage of actual uncompensated care have been reduced due to the federal contribution made under the Patient Protection and Affordable Care Act. The legislation authorizing the federal contribution initiated a phase out period, which is set to commence October 1, 2019. ECMCC's projections as to revenue from DSH do not appear to reflect the phasing out of payments under this program. If the phasing out of DSH impacts ECMCC's revenue significantly enough to cause a deficit, ECMCC will report an operating loss. Erie County must examine the long term potential impact of the loss of this revenue to ECMCC. Although no legislation has been introduced to delay the phase out yet again, such legislation may possibly be offered in the future.

Regardless, Erie County should prepare its budget to adequately fund obligations to ECMCC. The 2019 proposed Erie County budget allocates \$35,275,707 to cover anticipated IGT payments to ECMCC. This number is an improvement and appears to better reflect the trend of growing IGT payments. For example, in 2017, Erie County approved \$16,200,000 to cover its IGT obligation to ECMCC. Ultimately, Erie County paid \$50,418,549 to ECMCC that year. Clearly, the amount budgeted was not sufficient to cover the actual bill. Although the final numbers for 2018 are not yet known, it is known that ECMCC projects DSH, IGT and UPL revenue to increase by three percent in 2019 compared to 2018 to an amount slightly higher than 2017. As such, the Legislature should give careful consideration as to whether the 2019 budget adequately funds Erie County's obligation to ECMCC.

Careful study and consideration needs to be given to IGT payments made by Erie County to ECMCC. Further, long term plan needs to be implemented to adequately fund the county's obligations to ECMCC without an annual reliance on fund balance.

ERIE COUNTY COMPTROLLER'S OFFICE