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Before the Joint Legislative Fiscal Committees
February 8, 2022

In the aftermath of the pandemic, two health policy challenges stand out for New York: bolstering our public health defenses to stop the next virus, and downsizing a Medicaid system that became temporarily swollen during the crisis.

Unfortunately, the governor's proposed budget is mostly silent on both fronts – and includes proposals that are likely to make things worse.

Given that New York's downstate region suffered one of the most severe and deadly coronavirus outbreaks in the world, the state urgently needs to analyze what happened and arm itself to do better next time.[1]

It's true that New York was caught off-guard and poorly protected by the federal government. The question is whether New York's state government – which has primary responsibility for public health – is going to let those things happen again.

Disappointingly, Governor Hochul's budget makes no provision for studying one of the worst disasters in state history. Moreover, Health Commissioner Mary Bassett seemed to reject the concept at her confirmation hearing. Dr. Bassett said she has chosen to look forward rather than back.

In this situation, however, preparing for the future requires understanding the past. In the absence of leadership from the executive branch, the Legislature should develop its own investigative plan – either by exercising its oversight role or, preferably, commissioning a panel of outside experts. The time to learn the lessons of COVID is now, while the evidence is fresh and before the next virus strikes.

Hochul also shortchanges public health in terms of spending. Even as she allocates billions more to the already well-financed medical system, which cares for people one at a time, she makes no significant investment in preventive systems that protect the population as a whole –

which is what "public health" originally meant and which used to be the dominant purpose of the Health Department.

In the case of the Wadsworth Center – the state's well-regarded public health laboratory, which played a pivotal role in testing and research during the pandemic – Hochul proposes a 20 percent reduction in funding. That cut saves all of $14 million, or less than two hours' worth of Medicaid spending. I'm told this move is related to the wind-down of the state's stem cell research program. If so, why weren't the savings used to rebuild Wadsworth's staffing, which is one-third its size of 10 years ago?

On a positive note, the governor is proposing to boost state funding for the local health departments operated by New York City and many of the other 57 counties – which have played a front-line role in pandemic defense. As the Legislature modifies the governor's proposals, the state's public health functions deserve the same attention and support.

In contrast to her tight fist with public health, the governor's budget calls for boosting the state share of Medicaid by almost 20 percent, or $5.4 billion – which must rank among the largest such increases in the history of a large and expensive program.

This surge is partially driven by the anticipated expiration of federal emergency aid and an extraordinarily enrollment spike of more than 1 million during the pandemic.

In contrast to virtually all her predecessors from both parties, the governor proposes few if any cost-control measures that, while politically awkward, should be considered a routine part of managing such a large and important health plan. Instead, she includes a laundry list of ideas for significantly increasing Medicaid costs in a state that already has the highest per capita Medicaid spending in the nation.

These include one-time bonuses for front-line caregivers, across-the-board rate hikes for providers and targeted grants for safety-net hospitals and nursing homes. In addition, the governor intends to loosen the so-called "global cap" on Medicaid spending established a decade ago by Governor Cuomo. These proposals would clearly benefit people who work within the health-care system. Any positive impact for the low-income and disabled people the program is meant to serve would be indirect at best – and probably negligible.

Although the global cap began as a significant restraint on rapid Medicaid growth, it has become increasingly less relevant due to loopholes, exceptions and a lack of enforcement. It theoretically ties the growth of state Medicaid spending to the rolling average of the consumer price index for medical care, but the program's actual growth trend has been roughly twice as high.[2]

Still, the governor's proposed change in the cap, which would switch to a benchmark based on projected nationwide Medicaid spending, could make things worse. The new cap would rise much faster than the current one, running the risk that it would become a floor rather than a ceiling – and push Medicaid spending to increase faster than would otherwise be warranted.

Another risk in the governor's Medicaid budget relates to enrollment. It assumes that the number of recipients will plunge by more than 1 million over the next 12 months and another 400,000 in the year after that – helping to moderate expenses.

As pointed out by the office of Comptroller DiNapoli, however, New York's Medicaid rolls have a history of growing rapidly during recessions and then staying high when the economy improves.[3]

If the unprecedented drop does not happen as projected, DiNapoli warns, Medicaid spending could be billions higher than currently estimated – which would diminish or wipe out projected budget surpluses.

Downsizing Medicaid enrollment by more than 1 million in the next year will be a significant logistical challenge for the Health Department. Yet there is no mention of that effort – or the resources to make it happen – in the governor's spending plan.

Even before the pandemic, there were signs of increasing bloat in New York's Medicaid rolls, which now cover more than one-third of the state's population. Although the program was designed as a safety-net for the indigent and disabled – people with no means to support themselves – New Yorkers above the poverty level accounted for all its growth over the past decade and more than half of its total enrollment as of 2019.[4]

Many of those less needy recipients are able-bodied and employed and should not be entirely dependent on a taxpayer-financed health plan, where they divert resources from the truly vulnerable. As the state downsizes its rolls post-pandemic, it should focus on making private insurance more affordable and accessible to the bulk of the state's population.

In addition to spending through Medicaid, the governor is proposing to set aside $1.6 billion in capital funding for health providers. It's far from clear that this is necessary. The state has previously allocated $3.8 billion for health capital over the past eight years, and $2.1 billion of that remains unspent. Nor has the governor provided a needs assessment to explain why health-care organizations should not be expected to finance their own building projects and equipment acquisitions.

Some of the governor's spending proposals are motivated in part by a desire to help hospitals, nursing homes and other parts of the health-care system recover from the effects of the pandemic. The impulse is understandable given the stresses caregivers have weathered over the past two years, and the sacrifices they have made.

As legislators consider these commitments, they should keep in mind that the federal government has already provided billions in emergency relief to compensate providers for their financial losses. Contrary to the industry's initial concerns, the effort had made a significant impact. A review of cost reports for 147 New York hospitals – about four-fifth of the state's total – shows that 58 percent ended their 2020 fiscal years in the black, roughly in line with the average for the previous nine years.[5]

Both the strains of the pandemic and the extra federal aid continued through 2021, so it would be useful for lawmakers to obtain an updated accounting before finalizing this budget.

Finally, the governor is proposing to deposit $1 billion in the so-called Health Care Transformation Fund – a vehicle established at the behest of Governor Cuomo that allows the executive branch to spend money on virtually any health-related purpose without consulting the Legislature until after the fact.

This is an end-run around the constitutional safeguards for managing the public's money, and it creates an obvious risk of abuse. This was demonstrated in 2018, the first year of the fund's existence, when the former governor dipped into the fund to finance a Medicaid fee hike for hospitals and nursing homes – a lobbying priority of one of his biggest campaign donors – one week before Election Day.

Rather than subject the new governor to a similar temptation, the Legislature should reject this new deposit and abolish the fund entirely.

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[1] See "2020 Hindsight: Rebuilding New York's Public Health Defenses After the Coronavirus Pandemic," Empire Center, June 2021. https://www.empirecenter.org/wp-content/uploads/2021/06/2020Hindsight.pdf
[2] See "Busting the Cap: Why New York Is Losing Control of its Medicaid Spending Again," Empire Center, Oct. 9, 2019. https://www.empirecenter.org/publications/busting-the-cap/
[3] Office of the New York State Comptroller, "Medicaid: Enrollment Growth, COVID-19 and the Future," December 2021. https://www.osc.state.ny.us/files/reports/pdf/medicaid-enrollment-growth-covid-19-and-the-future.pdf
[4] See "Medicaid's Metamorphosis: How one in three New Yorkers landed in a 'safety net' health plan," Empire Center, December 2021. https://www.empirecenter.org/wp-content/uploads/2021/12/Medicaids-Metamorphosis-1.pdf
[5] See "With help from Washington, most hospitals ended 2020 in the black," Empire Center, February 4, 2022. https://www.empirecenter.org/publications/most-hospitals-ended-2020-in-the-black/