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Hospital troubles leave taxpayers on hook to pay back state loans

A billion-dollar state borrowing program will soon have to pay back bondholders, with $81 million budgeted this year

2 Comments

The state is on the hook for up to a half billion dollars to cover bonds from a 1980s-era bailout of private hospitals in New York State, including one that shut its doors two years ago.

While the state budget division projects its burden to be only $3 million in the coming fiscal year, the debt service the state expects to pay for eight struggling hospitals and one that has already closed will rise to $32 million in 2014 and $39 million annually starting in 2015.

In effect, the state will be stepping in to bail out its own bailout.

"The state is basically acting as a kind of bank," said **Tom D'Aunno**, a professor at the Columbia University School of Public Health specializing in health care management. "One question is, are you throwing good money after bad?"

In a **statement** to investors this month, the state's budget office revealed that it is making $35 million available in the next two fiscal years to pay bondholders back.

The 2013 state budget includes a total of $81 million set aside for bondholders on the Secured Hospital Program, which promised that the state would make investors whole if the indebted hospitals failed. The budgeted funds will cover debt payments on the hospitals' bonds once the hospitals themselves can no longer afford to make them. Private hospitals that borrowed under the program owe $79 million in annual payments.

Three hospitals have already shut their doors, and only two were able to fully pay back their loans in bankruptcy. Now three more, all in Brooklyn, are "experiencing financial crises that require aggressive action," according to a task force convened by the state's Medicaid Redesign Team to assess medical care in the borough.

In all, 11 private hospitals borrowed more than $1 billion between the mid 1980s and 1998 – all of it without voter approval. Financially distressed facilities succeeded in borrowing sizeable funds at low interest rates they could otherwise have never gotten from investors.

The program dates back to 1985, when the CEO of Jamaica Hospital, David Rosen, sought support to keep the Queens facility open after a New York City agency recommended its shutdown. In response, State Senator Anthony Seminerio introduced a bill creating the Secured Hospital Financing Program.

According to the ruling of U.S. District Judge Jed Rakoff convicting Rosen last year for subsequently bribing Seminerio and two other state senators, Jamaica Hospital lobbyist George Kalkines helped draft the Senate bill creating the bond program. Seminerio shepherded it through the legislature and persuaded an initially skeptical Gov. Mario Cuomo to sign the measure.

Jamaica Hospital received $105 million in financing through the Secured Hospital Program, and used it to overhaul its existing facility and build a new one. Visitors to the 1987 groundbreaking were greeted with a sign that said "Welcome to Seminerio City."

Last week, Rosen was sentenced to three years in prison in connection with the bribery scheme. Seminerio died in jail last year after his indictment in the case.

Today, some $503 million of Secured Hospital debt remains in the hands of bondholders, and Jamaica Hopital is one of four New York City facilities in the program that is now delinquent on its payments to bondholders. Another is Brookdale

Hospital, also operated by Rosen's MediSys Health Network. North General Hospital in Manhattan, which went bankrupt and shut its doors in 2010, is also falling short on bond payments, as is Interfaith Hospital in Brooklyn. The state Dormitory Authority, the quasi-governmental body that issued the bonds, has been making their payments out of reserve funds.

The state projects making $3 million in payments in the coming fiscal year, followed by $32 million in fiscal year 2014 and "$39 million annually thereafter" to cover the debt service costs for four hospitals unable to pay them.

The state began warning investors last November that it might need to intervene, as the hospitals' financial conditions worsened. At the time, it projected the state would pay $32 million a year out of its own treasury.

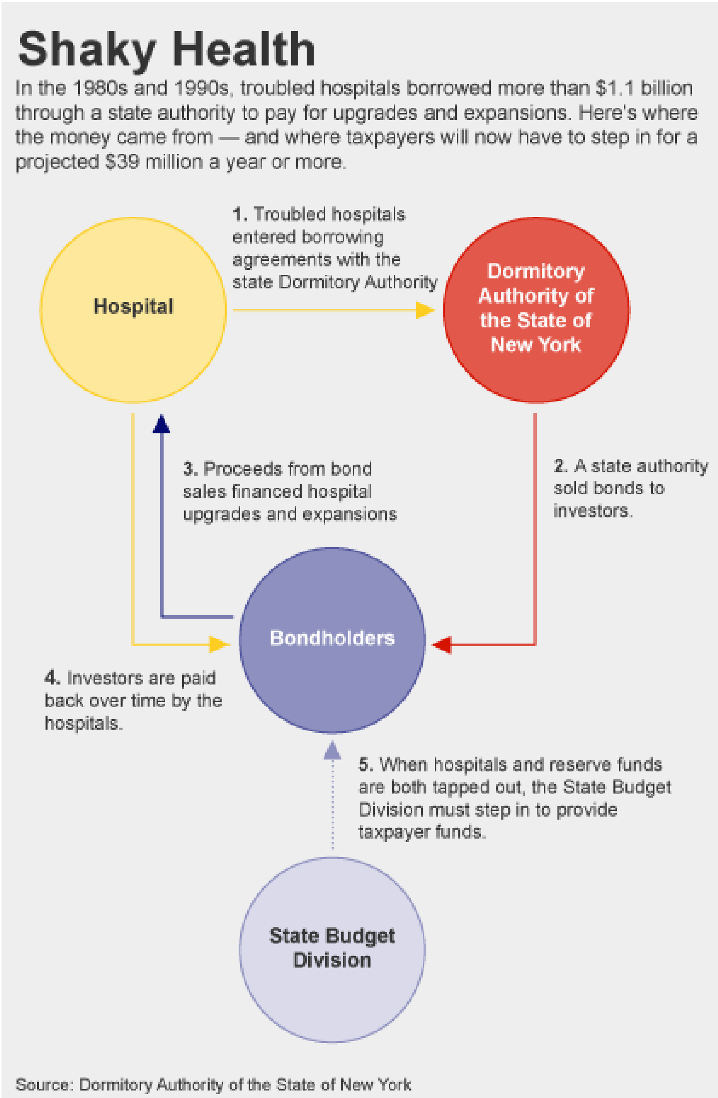
No one knows how long the hospitals can keep paying back their debt. The governor's financial plan notes that of the eight hospitals that remain open, "several are experiencing significant operating losses that are likely to impair their ability to remain current on their loan agreements."

The consequences for taxpayers are spelled out in the state's financial plan: "In the event there are shortfalls in revenues… the State is liable for the debt service." That obligation is spelled out in contracts with each of the hospitals. The legislature has no choice but to budget the funds: if it didn't, the state's creditworthiness would crumble.

Until now, the Dormitory Authority has taken measures to delay tapping taxpayers to repay the bonds. Brooklyn's Wyckoff Hospital was more than $15 million in arrears on its bond payments when, last May, the Authority stepped in and restructured Wyckoff's contract so that the hospital will pay that debt back beginning in 2021.

That is, if Wyckoff Heights Medical Center is even still in business then. "There can be no assurance that management's plans will be sufficient or timely enough to generate sufficient cash to meet its operating needs and achieve financial stability for the Medical Center," concludes the most recent audit filed with the state attorney general. "These uncertainties raise substantial doubt about the Medical Center's ability to continue as a going concern."

The Brooklyn Medicaid Redesign Team task force put it more bluntly: The hospital is "in jeopardy of failure."



Wyckoff Heights President and CEO Ramon Rodriguez begs to differ. “That used to be the case but it’s no longer so,” he said, noting that the hospital has sufficient cash flow up till the end of the year and is paying the Dormitory Authority on time each month but also acknowledging that Wyckoff still owes the Dormitory Authority $91 million under the Secured Hospital Program. “Our problems are huge but we’re dealing with it. We’ve made great improvements accomplished by reducing costs of employment — from full time positions to part-time or private practice exclusively — and in bringing more people into the hospital.

“Like every community hospital in the state, it’s very, very difficult to become an organization that will be profitable.”

Some $16 million remains in Wyckoff reserve funds for debt payments. Once those run out, New York State is obligated to pay bondholders.

Yet credit ratings agencies Moody’s and Standard & Poor’s continue to label New York’s Secured Hospital revenue bonds as “high-grade” debt securities. “Our rating on the secured hospital program is not dependent on the number of hospitals and whether they are in operation, but based on the state’s creditworthiness and commitment to fund the debt service whether the hospitals are in operation or not,” wrote S&P senior director David Hitchcock, in response to inquiries from The New York World.

But while analysts consider the bonds state debt for all intents and purposes, the state treats it as if it just belongs to the Dormitory Authority, allowing it to skirt the voter approval required by the state constitution.

After Jamaica and Bronx-Lebanon hospitals received the first $300 million in bonds in the mid 1980s, Interfaith and North General lobbied lawmakers for an expansion of the program. Both sought funds to improve their facilities, and could not borrow on their own because of poor credit. “The survival of the hospital will be greatly jeopardized without this financing,” William F. Green, senior vice president of external and governmental affairs for Interfaith Medical Center in Brooklyn, told Crain’s New York Business in 1988. “You have to update and upgrade your facilities to compete.”

Interfaith and North General — followed later by Wyckoff Heights, Brookdale and five more hospitals statewide — succeeded in getting the funds. Loan agreements and service contracts between the Dormitory Authority and the state promised that taxpayers would pick up the tab whenever these institutions could not afford to pay off their loans. The loans pledge the hospitals' real estate and other assets as collateral to the Dormitory Authority.

D'Aunno says the state's big misstep was lending the funds without taking action to restructure the institutions' management. "Good management is important," he said. "You need good management to make these tough financial decisions."

A **recent New York Times investigation** revealed executive corruption within Brooklyn's Wyckoff Heights Medical Center. Even as the hospital sought financial help from the state, board members benefited personally through their ties. One board member had an exclusive contract to dispense drugs. Another provided on-site check-cashing for employees.

Brookdale and Interfaith have especially dismal finances. Interfaith has liabilities in excess of assets of $126 million, with $148 million in long-term debt alone, while Brookdale has an astounding $285 million in net liabilities. Interfaith operated approximately $57 million in the red in 2010; Brookdale, nearly $43 million.

The three Brooklyn hospitals serve neighborhoods where rates of chronic obesity, hypertension and diabetes are severe, and the hospital emergency rooms are major providers of care. Nearly a quarter of residents live in poverty. Many are uninsured, and even for those who do have health coverage cuts to Medicaid and Medicare are likely to put further pressure on hospital finances. But all of these challenges, says the Medicaid Redesign Team's Brooklyn task force, are exacerbated by "excess borrowing, wasteful spending, and mismanagement."

The task force recommended mergers and ejection of current management at all three institutions in the borough that have borrowed from the Secured Hospital Program. "The boards of some of these hospitals have failed to satisfy fully their responsibilities to the organizations and their communities," states the report.

So what will happen if the indebted hospitals close? The Dormitory Authority can try sell their real estate to pay off the bonds. That's what it did successfully with midtown Manhattan's St. Clare's Hospital, now the site of luxury condos.

The fate of Harlem's North General Hospital shows a more likely scenario for Brooklyn, in which the state cuts its losses and continues to ensure a high-needs community receive medical care, but still must make sizeable payments on the hospitals' bonds.

After North General closed its doors in 2010 with $111 million in outstanding bonds, the Dormitory Authority created a subsidiary to take over the property. It sold one part of the complex and reached a special arrangement to lease the main hospital building to the city's Health and Hospitals Corporation (HHC), starting last June. Eventually, the city will buy the building for $1.

According to HHC spokesperson Evelyn Hernandez, the city corporation will pay $3.3 million in annual rent over some 15 years, during which it will establish a new long term acute care and residential skilled nursing facilities. Those were formerly located at Roosevelt Island's Goldwater facility, the site of the future tech campus of Cornell University.

But the income from the real estate still falls far short of the annual **$12 million annual debt service payment** due for North General's bonds over the next 13 years.

The state faces two options in Brooklyn. It can allow the medical institutions to shut down and pay off much of the debt through sale of the hospitals' assets, or it can keep bailing out the bailout. Health care workers and local leaders warn that if the state allows the hospitals to fail, the communities will pay dearly.

"It is incumbent upon the State Department of Health to intervene and ensure that these facilities continue serving the residents of Central Brooklyn," Brooklyn Borough President Marty Markowitz said in a statement last June as hospital workers charged that Brookdale had fallen short on contributions into its employee benefits fund. The health care workers union Local 1199 later sued to demand payments. "This is truly a matter of life and death."

A Brookdale general practitioner shares the view that the state has a responsibility to the communities the hospitals serve. "If a hospital like Brookdale goes, you have at least 10 miles of people affected," said a Brookdale general practitioner who has spent more than a decade working there. He declined to be identified because of fear of jeopardizing his employment. "This is no North General or those other Manhattan hospitals. There isn't a nearby alternative."

Who Borrowed $1.1 Billion

The state legislature allowed 11 private hospitals to borrow against a promise that the state would pay lenders if the hospitals could not. Three have closed, and four are now likely to require state aid.

☐ **Current** ☐ **Delinquent** ☐ **Closed**

Facility	Location	Amount borrowed (as of 2001)	Outcome
North General Hospital	Manhattan	$144.6 million	Closed in 2010 bankruptcy. Sale and lease of facilities partially paying bondholders; state due to pay remainder.
St. Agnes Hospital	White Plains	$38.5 million	Closed in 2003. Sale of property for real estate development paid back bondholders.
St. Clare's Hospital	Manhattan	$44.7 million	Closed in 2007. Sale of property for real estate development paid back bondholders.
Wyckoff Heights Medical Center	Brooklyn	$140 million	Was $15.5 million in arrears on bond payments in 2010; Dormitory Authority granted 10 years' forbearance.
Interfaith Medical Center	Brooklyn	$149 million	Delinquent on bond payments.
Brookdale Hospital	Brooklyn	$141 million	Delinquent on bond payments.
Jamaica Hospital	Queens	$91.6 million	Delinquent on bond payments.
New York Downtown Hospital	Manhattan	$60.7 million	Current on bond payments.
Southside Hospital	Bay Shore	$55 million	Current on bond payments.
Catskill Regional Medical Center	Sullivan County	$67.3 million	Current on bond payments.
Bronx-Lebanon Hospital Center	Bronx	$170 million	Current on bond payments.

Source: The Dormitory Authority of the State of New York

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