

After Hospitals' Donation to New York Democrats, a \$140 Million Payout

Gov. Andrew Cuomo raised payments to hospitals at a time when Medicaid spending was already drastically over budget.



After years of battling to control the state's Medicaid costs, Gov. Andrew Cuomo in 2018 authorized an across-the-board increase in Medicaid reimbursement rates. Credit...Hans Pennink/Associated Press



By [J. David Goodman](#)
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With Medicaid costs soaring in New York, the Greater New York Hospital Association was pushing for the seemingly impossible: more state reimbursement money.

It was a big ask, and for years, it had gone nowhere. Medicaid spending already represented an enormous and ever-growing share of the state budget, and Gov. Andrew M. Cuomo had [taken steps to keep the program in check](#).

Then things changed.

As Mr. Cuomo was locked in a [bitterly fought Democratic primary](#) last year, his campaign asked the association, one of Albany's most influential and richest power centers, to make a major donation to the State Democratic Party, according to a person familiar with the discussions.

The hospital association wrote two checks for the state party, totaling more than \$1 million, campaign finance reports show. It was twice as much as the association, which represents New York City's biggest health care institutions, had given to any campaign in at least a decade.

Soon after, the state quietly authorized an across-the-board increase in Medicaid reimbursement rates for the first time since 2008 — a move officials expect will cost the state roughly \$140 million a year in extra payments to hospitals and nursing homes.

The increase in Medicaid payments underscored the power of the hospital association, whose deep pockets and long alliance with an influential union, 1199 S.E.I.U., make it a fearsome presence in Albany. The association has increasingly eclipsed real estate as the Capitol's most influential lobbying force, as it pours funds into political campaigns; its top lobbyist is [among the biggest donors in New York](#).

Mr. Cuomo has denied that his decisions as governor are influenced by campaign contributions. State officials said the rate increase had been contemplated for months before the donations.

“Yes, health care costs are increasing and that is not a news flash, but rather a well-documented national phenomenon that has nothing to do with politics, the weather or religion,” said Richard Azzopardi, a spokesman for the governor. “The only news is how low our increases have been: 1.5 and 2 percent after flat funding for more than eight years.”

But the increased spending on hospitals raised questions over whether the Cuomo administration, as it provided a windfall to an influential lobbyist, ignored signs of a large and looming shortfall in the Medicaid budget: By March, the state had exceeded its budgeted allocation by roughly \$1.7 billion, records show.

Rather than disclose that shortfall, officials attempted to conceal it during budget discussions in March. They then pulled off a fiscal sleight of hand, delaying \$1.7 billion in scheduled Medicaid payments by three days — effectively pushing the cost to the following year’s budget.

“It’s everything that’s wrong with Albany in one ugly deal,” said Bill Hammond, a health policy expert at the nonpartisan Empire Center who [first noticed the budgetary trick](#). “The governor was able to unilaterally direct a billion dollars to a major interest group while secretly accepting its campaign cash and papering over a massive deficit in the Medicaid program.”

Medicaid, which provides health care to those who cannot afford it, matches federal funds to state spending. New York’s program has long been among the nation’s most expensive, now reaching a total cost of [more than \\$75 billion](#), and Albany shifts more of the burden to local counties than most states do.

Mr. Cuomo, from the start of his administration, took [steps to reform the Medicaid system](#) and rein in spending, including the freeze on rate hikes for hospitals and nursing homes. The efforts saw some success, with several years of declining costs per Medicaid enrollee. But recently that trend has reversed.

Spending has grown in part because people are living longer, long-term care costs are rising and there has been an expansion of the number of people covered by Medicaid, officials and analysts said. Democratic initiatives have also added costs, notably with the rise in New York’s minimum wage.

As Medicaid spending grew last year, Mr. Cuomo found himself in a tricky situation: He was facing an [energetic primary challenge from Cynthia Nixon](#), who supported a “Medicare for all” plan for the state. If he were to try to crack down on Medicaid spending, he would risk alienating some Democratic voters, as well as the hospital lobby.



With Mr. Cuomo facing a spirited primary challenge from Cynthia Nixon in 2018, the political atmosphere in New York veered sharply toward the left. Credit...Hiroko Masuike/The New York Times

At the same time, [insurgent Democrats](#) were running successful primaries against longtime office holders, upending the balance of power in the State Senate.

“The politics were that the governor during the primary season was being pulled further and further to the left,” said Lev Ginsburg of the Business Council of New York State. “So at that point, he was not going to do things that were going to be unacceptable to the left.”

The governor instead found a stopgap: He negotiated a \$2 billion payment to the state from the sale of a nonprofit Roman Catholic health insurance company, Fidelis, using that money to create a health care fund that he would control. Much of the money so far has gone to hospitals and other providers, in part to offset the cost of new labor contracts. (The sale is [under review by the federal Medicaid agency](#).)

Robert Mujica, the state budget director, said the Medicaid reimbursement rate increase was directly tied to the Fidelis sale — and that he told the hospitals lobbying for the increase that it would be.

“They lobby for it every year,” Mr. Mujica said. “I was very matter of fact: If I have the money, I’ll be able to do it; if I didn’t have the money, I won’t be able to do it.”

The hospital association and the union lobbied hard for the Fidelis deal, Mr. Mujica said.

Then last August, Greater New York Hospital Association dumped more than \$1 million into the housekeeping account of the State Democratic Party, which Mr. Cuomo controls.

Housekeeping accounts, which can accept unlimited donations, are, in principle, for spending related to party activities, not particular candidates. But in practice, the state party has used its account [to promote the governor's agenda](#). (Mr. Cuomo proposed limiting donations to the housekeeping accounts in early 2018, but the changes were not adopted.)

Because of the nature of the account, the association's donations were not publicly disclosed until more than a month after the election. Neither Mr. Cuomo's campaign nor the hospital association disputed that a campaign official solicited the contribution.

Brian Conway, a spokesman for the hospital association, said the donations were part of a strategy to combat "terrible health care policies from Washington, D.C."

"The contributions were in recognition of New York Democrats' commitment to protecting the state's health care delivery system in the face of this federal assault, which continues to this day," Mr. Conway said.

The Medicaid rate increase went into effect in November; the Health Department placed a short public notice on Pages 90-91 of the State Register a day before the rate increases — 2 percent for hospitals and 1.5 percent for nursing homes — went into effect.

The new spending did not cause the Medicaid budget shortfall, but it added to it, and will continue to do so in future years, budget analysts said.

"This is a really big deal," said Andrew Rein, president of the Citizens Budget Commission, a nonpartisan watchdog. "This is not just a delayed payment. It obfuscates the state's fiscal reality."

Mr. Mujica, the state's top budget official, said he was not told about the Medicaid gap until late March. "My fiscal planning people came to me and said we had a Medicaid issue," he recalled in a telephone interview.

By then, the Department of Health had already realized there was a problem, forcing the state to rely on what it calls "cash management" — paying the outstanding Medicaid bills from surplus discretionary cash in the budget.

Mr. Mujica said the governor was not told of the issue. "A payment lag of three days was not something that had to rise to that level," he said.

Health officials disclosed the last-minute maneuver in [a monthly report issued in March](#), adding that it was not the first time the state had done so; in recent years, the health department “managed the timing of payments across state fiscal years that ranged from \$50 million to roughly \$435 million,” the report said.

Around that time, with the state concerned over federal tax law changes, Mr. Cuomo did [propose a major cut](#) to Medicaid in his executive budget proposal. It was furiously opposed by the hospital association and 1199. A month later, the governor withdrew the plan. Mr. Mujica said neither he nor the governor were aware at the time of the budget shortfall.

The state still has no plan for what to do about the sharp rise in Medicaid spending, officials acknowledged.

Officials also have yet to account for the excess spending in its budget plan, raising the possibility that the payment delays could happen again next year. The monthly reports on Medicaid spending, which had been posted online, [stopped appearing after March](#).