SYRACUSE FACES RISING HEALTH COSTS; HOSPITAL COMPETITION GROWS

Crouse Hospital’s emergence from bankruptcy and attempts to regain lost market share have stirred hospital competition in Syracuse. At the same time, the pace of development of new physician-owned ambulatory and diagnostic facilities and acquisition of diagnostic equipment has slowed, but increased utilization has contributed to rising health care costs. Health insurance premium increases were in double digits for a fifth straight year, continuing to strain a local economy slowly recovering from the recession. Two years ago, HealthNow’s entry into an insurance market dominated by Excellus BlueCross BlueShield sparked price competition and lowered premiums for some small and mid-sized companies. However, after a change in leadership at the parent company, HealthNow essentially has withdrawn from the Syracuse market.

Other noteworthy developments include:

- A community-wide health planning organization has formed to review future capacity expansion in an effort to constrain rising health care cost growth.
- New information technology initiatives face challenges in a market slow to embrace electronic medical records.
- Public insurance programs remain stable, but the local safety net is experiencing increasing strains because of declining capacity and increasing demand from uninsured people.

Hospital Competition Grows as Crouse Hospital Recovers

After many years of operating losses and a failed merger, Crouse Hospital—the largest of the Syracuse area’s four hospitals—emerged from bankruptcy in 2003. All four hospitals in the market were profitable in 2004, and each hospital has maintained a particular niche of services. Crouse Hospital provides more than half of the area’s obstetrical and neonatal care. Neighboring University Hospital Upstate University Hospital at Syracuse provides high-end specialty care, such as cardiac surgery that is expected of a teaching hospital, while St. Joseph’s Community General Hospital of Greater Syracuse offers a range of general acute care services and recently invested in obstetrics and a new facility for physical medicine rehabilitation to complement its orthopedic services. Also, Community General recently established a collaborative program with St. Joseph’s Hospital Health Center for cardiac care.

Competition among the area hospitals has intensified as Crouse Hospital strives to regain lost market share. Because of its financial problems, Crouse Hospital lost market share to other hospitals, notably to St. Joseph’s Hospital Health Center. Community General Hospital of Greater Syracuse offers a range of general acute care services and recently invested in obstetrics and a new facility for physical medicine rehabilitation to complement its orthopedic services. Also, Community General recently established a collaborative program with St. Joseph’s Hospital Health Center for cardiac care.

Providing Insights that Contribute to Better Health Policy
Hospital Health Center and University Hospital-Upstate University Hospital at Syracuse. Market share shifts occurred as physicians, concerned about Crouse Hospital’s bankruptcy, sought admitting privileges or moved a greater share of their admissions to other hospitals in the community. However, market observers expect that Crouse’s newly appointed CEO, Paul Kronenberg, a longstanding and highly respected physician from the hospital medical staff, will solidify physicians’ trust in the hospital’s recovery and help the hospital reclaim lost ground.

Despite its recent financial gains, Crouse Hospital faces longer-term challenges because of its aged physical plant, debt payments and lagging investments in information technology. Because of the physical proximity and complementary service niches of Crouse Hospital and University Hospital-Upstate University Hospital, expectations for a potential merger persist despite union opposition and cultural differences between the two organizations. Crouse Hospital lacks cardiac surgery, which University Hospital provides. University Hospital lacks obstetrics, which Crouse offers, and University Hospital is developing a pediatric hospital, which is a natural link to Crouse’s high-risk neonatal care services.

A consultant, paid for by the Metropolitan Development Association and Excellus BlueCross BlueShield during Crouse Hospital’s bankruptcy, has recommended the development of shared services rather than a full-scale merger between Crouse Hospital and University Hospital-Upstate University Hospital. While there is skepticism in the community whether significant collaboration will occur, some are optimistic that these collaborations will be fueled by concerns about Gov. George Pataki’s newly formed commission to evaluate and recommend hospital capacity reduction and closures.

In the last two years, there has been little hospital facility renovation and no expansion in hospital capacity in Syracuse. Several capital improvements remain in the planning stage. For example, Crouse Hospital is completing renovation of its intensive care unit (ICU) and kidney dialysis unit and plans to increase its number of operating suites. University Hospital-Upstate University Hospital at Syracuse has $100 million that the state certificate-of-need agency approved for construction of a children’s hospital. In addition, St. Joseph’s Hospital Health Center has a six-to-eight year master plan to rebuild the entire campus of the hospital and convert it to private rooms.

Higher Utilization Spurs Cost Growth in Syracuse

In recent years, health care costs in Syracuse have been driven up by increased utilization, attributed primarily to physicians who have pursued new revenue through ownership of ambulatory surgery centers and diagnostic imaging equipment. As a result of care shifting to physician-owned facilities, outpatient services at Crouse Hospital and Community General Hospital of Greater Syracuse have declined. As an example of the growth in diagnostic imaging, magnetic resonance imaging (MRI) utilization in Syracuse is twice that of Rochester, N.Y., and, compared with similar communities, Syracuse has the largest number of MRI machines in the state.

However, the pace of development of new physician-owned facilities and the acquisition of new equipment has slowed over the past two years, and some market observers suggest that the market may have reached saturation—a natural limit on the number of facilities the market can support given population size and the demand for health services. Rather than adding

### Syracuse Demographics

<table>
<thead>
<tr>
<th>Category</th>
<th>Syracuse Metropolitan Areas 200,000+ Population</th>
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<tbody>
<tr>
<td>Population</td>
<td>735,920</td>
</tr>
<tr>
<td>Persons Age 65 or Older</td>
<td>12.4% 10%</td>
</tr>
<tr>
<td>Median Family Income</td>
<td>$27,043 $31,301</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5.8% 6.0%</td>
</tr>
<tr>
<td>Persons Living in Poverty</td>
<td>15% 13%</td>
</tr>
<tr>
<td>Persons Without Health Insurance</td>
<td>7% 14%</td>
</tr>
</tbody>
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Sources:
2. HSC Community Tracking Study Household Survey, 2003
new services, large physician practices reportedly are refining current service offerings.

Meanwhile, Excellus BlueCross BlueShield, the not-for-profit insurer with roughly 70 percent market share, has refrained from aggressively curbing cost growth by squeezing provider payment rates or managing utilization to avoid antagonizing physicians. Maintaining a broad provider network remains Excellus’ key competitive strategy against significant market entry by national health plans, such as Aetna and UnitedHealthcare. However, physicians continue to distrust Excellus BlueCross BlueShield, likely because of Excellus’ potential market clout.

Excellus recently settled a lawsuit filed by the Medical Society of New York against area health plans, which claimed that health plans made it difficult for physicians to understand the plans’ billing and payment practices.

As Excellus has consolidated acquisitions, it has worked to standardize its claim billing processes to a resource-based relative value system (RBRVS), although different products use different claims coding procedures currently. In the meantime, these billing procedures and resulting reimbursement have confused and frustrated physicians. As part of the lawsuit settlement, Excellus has agreed to show physicians its fees, policies and procedures on its Web site. In addition, if Excellus adds a product that results in a change in fees, physicians have the right to opt out of that product.

**Community-based Efforts Form to Reduce Health Care Costs**

The Syracuse economy is slowly recovering from the recession, yet continues to face rising health care costs. The area’s manufacturing sector continues to erode, with the international acquisitions of Niagara Mohawk and Carrier, in particular, moving jobs out of the area. And although Destiny USA—expected to be the biggest mall in America with theme attractions and a sports complex—promises new jobs, these jobs will be mostly minimum wage, replacing higher-paying manufacturing jobs.

At the same time, employers have faced a fifth year of double-digit premium increases. Two years ago, heightened price competition among insurers helped moderate premium increases, although some respondents questioned insurers’ ability to maintain lower premiums given rising cost pressures. At that time, HealthNow, a subsidiary of Buffalo-based BlueCross BlueShield of Western New York, entered the market with premiums reportedly 10 percent to 15 percent lower than its health plan competitors and gained enrollment from some small and mid-size employers. Although it offered relatively attractive premiums, its provider network did not match the breadth of its chief rival, Excellus BlueCross BlueShield. New leadership at HealthNow’s parent company, however, was unwilling to weather the additional losses required for this expansion into the Syracuse market and raised premiums 33 percent, on average, for 2005. As a result, HealthNow has lost most of its previous membership gains, has stopped advertising and has reduced staffing at its Syracuse office.

In light of the high costs of health care in Syracuse, the Metropolitan Development Association sponsored efforts to establish a community-wide health capacity planning process. Eighteen months of talks among hospitals, doctors and insurers led to a consensus to form a new organization, called the Health Care Planning Organization, that would examine health services use and capacity planning. However, there reportedly are significant concerns from the pro-
vider community that the Syracuse effort might simply mimic Excellus’ Rochester Community Technology Assessment Advisory Board, which reviews any addition to capacity in Rochester that costs $3 million or more. Because of concern about Excellus’ clout in the Syracuse market, representation for the new planning organization is carefully constructed to ensure that employers have the majority of the board’s representation and that hospitals and physicians each have double the representation of Excellus. In addition, Excellus is restricted to funding no more than a third of total costs for the planning effort.

Although physicians and hospitals agreed to the formation of the new planning organization, it remains to be seen whether consensus concerning health planning can be ironed out given the conflicting interests of the stakeholders. While market observers concede that the Syracuse market has most likely met its natural limit for the number of facilities that the community can support, participants in the planning effort hope to limit the uncontrolled proliferation of any new technologies.

**Employers Prompt Clinical IT and Data Sharing Efforts**

Physicians’ adoption of information technology (IT) and clinical data sharing capabilities has been relatively slow in the Syracuse market. Physicians with IT are largely focused on data sharing and services offered within their group and have no direct data link to hospitals at which the physicians practice or with other medical groups.

For example, two medical groups, Syracuse Orthopedic Specialists and Family Care Medical Group, have an electronic medical record and are in discussions with Community General Hospital of Syracuse about establishing a direct link so that medical information resulting from hospital services can be transmitted to a shared electronic record.

In contrast to physicians, Syracuse hospitals are more actively developing information technology capabilities, but some hospitals report that physicians do not take advantage of their remote access to these information systems. St. Joseph’s Hospital Health Center has the highest physician use of its information system because the hospital does not maintain paper records more than 24 hours after patient discharge. In addition, to facilitate and encourage physicians to use the technology, St. Joseph’s implemented electronic sign-off of records and has dedicated staff who assist physicians in using the system.

Meanwhile, employer efforts to improve quality and reduce costs in the market may face challenges from physicians and hospitals. The Manufacturer’s Association of Central New York (MACNY) formed a health care committee to develop recommendations to lower costs through improving quality and patient safety. Although not MACNY’s area of expertise, health care costs are routinely one of the top three concerns of employers based on MACNY’s annual survey of area employers. MACNY’s committee recommendations include development of data-sharing capabilities and a community-wide health information exchange. This information initiative for data exchange would be built around MetroNet, a hardwire cable that connects major institutions in Syracuse and reportedly is currently underutilized.

In a separate effort, Onondaga County launched a medical record initiative that provides county employees with privacy-protected access to benefit and medical information, such as medications, allergies and family

### Health Care Utilization

<table>
<thead>
<tr>
<th>Syracuse</th>
<th>Metropolitan Areas</th>
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<tr>
<td></td>
<td>200,000+ Population</td>
</tr>
<tr>
<td><strong>Adjusted Inpatient Admissions per 1,000 Population</strong>¹</td>
<td>190</td>
</tr>
<tr>
<td><strong>Persons with Any Emergency Room Visit in Past Year</strong>²</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Persons with Any Doctor Visit in Past Year</strong>²</td>
<td>82%</td>
</tr>
<tr>
<td><strong>Persons Who Did Not Get Needed Medical Care During the Last 12 Months</strong>²</td>
<td>4.5%</td>
</tr>
<tr>
<td><strong>Privately Insured People in Families with Annual Out-of-Pocket Costs of $500 or More</strong>²</td>
<td>43%</td>
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Sources:

¹ American Hospital Association, 2002
² HSC Community Tracking Study Household Survey, 2003
history. Through this effort, the county hopes to reduce costs by improving quality and coordination, for example, by reducing duplicative testing. After five months, more than 700 of roughly 5,000 employees and retirees had enrolled.

However, the infrastructure for providers has not been developed to allow importing of laboratory or diagnostic imaging results, and no privacy agreement has been reached yet with providers in the community to allow access to the medical record. Although Excellus is supportive of this project, it has not allowed direct linkage to medical claims because of privacy concerns. The county is able to provide all of the employee’s medication history, including utilization and cost, because the county has direct access to pharmacy claims. Without a data link to physicians’ medical records, county employees and retirees typically print out the information from the county’s medical record at home and then take it with them to the doctor’s office.

Both the MACNY and Onondaga County efforts face an uphill struggle in a market where providers may resist outside efforts to develop information technology. Physicians are reluctant to adopt new information technology because of high initial investment and ongoing support costs. There also is concern that existing software is simply not mature enough and lacks interoperability, especially across physician groups or between hospital and physicians. And given the numerous platforms and no consensus about the best platform, physicians are reluctant to abandon systems that meet their current claims billing needs.

Moreover, not all of the hospitals view the community-wide health information exchange initiative favorably, because some hospitals see little value in broad data sharing within the community and prefer their own systems as a way to strengthen physicians’ affiliation with their hospital and thereby gain a competitive advantage.

**Safety Net Strained as Outpatient Capacity Shrinks**

The safety net for low-income people in Syracuse remains centered on the Syracuse Community Health Center’s 13 outpatient care locations and the four local hospitals, although some of the hospitals have reduced outpatient safety net capacity in the last two years.

For example, Crouse Hospital discontinued several outpatient clinics as part of its bankruptcy restructuring. Community General Hospital also has shed some outpatient services, and Upstate University Hospital closed a site on the Onondaga Nation reservation, which Syracuse Community Health Center now operates. In addition, Excellus BlueCross BlueShield recently discontinued two outpatient clinics—known as Lifetime Health Medical Group—that were losing money. The clinics served about 20,000 patients, including many patients considered indigent.

Although the Syracuse Community Health Center has been able to absorb some of this reduction in outpatient capacity—in some cases by taking over the operation of the discontinued clinics—the health center is strained because of increased demand from those clinics, a general rise in the number of uninsured people and cuts in grant funding.

The health center has experienced some cash-flow problems and a resulting lack of reserves, making it difficult to invest in needed equipment and supplies or address longer term needs, like IT systems. Syracuse Community Health Center also has outsourced some services, such as pharmacy services. Also, its patients reportedly are experiencing longer waiting times for...
Obtaining specialty care for low-income patients is viewed as extremely difficult in Syracuse, and may have grown somewhat worse over the past two years. Outpatient psychiatric services are among the specialty care services most often cited as being in short supply, and inpatient psychiatric care for children and adolescents became virtually unavailable in Syracuse after the closure of Four Winds Hospital in 2004.

St. Joseph’s Hospital Health Center has specialty clinics for allergy, orthopedics, asthma, dermatology, and otolaryngology where doctors volunteer their time, but in the last year closed its otolaryngology and dermatology clinic. More specialists are refusing to take emergency department on-call coverage, especially ophthalmologists and plastic surgeons who have moved a lot of their services out of the hospital to outpatient settings.

In addition, access to dental care for low-income persons continues to be a problem, despite recent increases in Medicaid reimbursement rates for dental care and the opening of new dental clinics geared toward Medicaid enrollees in the past two years.

**Medicaid Budget Remains Stable But Concerns Grow**

Despite ongoing budget concerns at both the state and local level, New York’s generous public coverage programs have been maintained, helping to provide some stability to the safety net in Syracuse. The programs include Medicaid and the State Children’s Health Insurance Program (SCHIP), known as Child Health Plus in New York, as well as Family Health Plus, a Medicaid expansion program that covers uninsured parents earning less than 150 percent of the federal poverty level ($29,025 for a family of four) and childless adults earning less than 100 percent of poverty ($9,570 for single adults) who do not otherwise qualify for Medicaid. Enrollment in public coverage continues to grow, aided in part by a simplified renewal process for Medicaid and Family Health Plus. Attempts by Gov. Pataki to cut Family Health Plus were rejected by the Legislature, although a change to the Medicaid pharmacy benefit reduced reimbursement to pharmacies and increased copayments for enrollees.

However, public program enrollment increases also are contributing to budget problems at the local level. County governments in New York are responsible for up to about one-fourth of Medicaid costs. According to local media, higher than expected increases in Medicaid costs and large enrollment increases for Family Health Plus have forced Onondaga County to spend down reserves and raise local taxes in recent years. Rising costs of public pensions and health benefits for county employees also were cited as contributing to county budget problems. To cover the increased costs, Onondaga County increased its sales tax by 1 percentage point last year.

To date, ongoing budget problems at the state and local level have not resulted in major cuts in public coverage programs and have had little or no effect on the safety net in Syracuse. Outreach programs continue to be active, and the facilitated enrollment program that uses community organizations to help individuals complete applications for Medicaid, Child Health Plus and Family Health Plus has continued. In April 2004, there was a change in Medicaid and Family Health Plus that allowed individuals to renew their eligibility by mail instead of
requiring face-to-face interviews, making it easier for people to stay enrolled in Medicaid and Family Health Plus.

Although public coverage programs have been maintained to date, Gov. Pataki has proposed an overhaul to the state’s Medicaid program. The plan, known as the Federal-State Health Reform Partnership (F-SHRP), is being proposed as an amendment to the state’s Section 1115 Medicaid waiver that would see increases in federal revenue of $500 million for each of the next three years in exchange for longer term cost containment.

In addition, the governor’s proposal would limit and eventually reduce the local jurisdictions’ share in the cost of the Medicaid program, and by 2008 the state would take over administrative responsibility for the program entirely. F-SHRP also emphasizes reducing excess capacity in hospitals and nursing homes, shifting long-term care from institutional to community-based settings, and investment in information technology. To implement F-SHRP, the amendment would require final approval from the federal government and the state Legislature.

**Issues to Track**

As premiums continue to grow in the double digits in Syracuse, several new community-wide efforts have been launched in an attempt to address long-term health care cost concerns. And although Crouse Hospital has emerged from bankruptcy, concerns about its future remain. In addition, rising Medicaid costs and proposed remedies raise concerns about the future for Syracuse’s safety net and strong public insurance coverage.

Important issues to track include:

- Will the Health Care Planning Organization reach consensus among its divergent stakeholder-ers on capacity planning issues to reduce costs and improve care delivery in the Syracuse market?
- After several years of financial woes, will Crouse Hospital be able to address longer-term financial concerns, including its aged infrastructure, debt obligations and attracting back lost business from other hospitals in the community?
- To what extent will hospitals’ use of information technology as a competitive strategy and physicians’ slow adoption affect Onondaga County’s and MACNY’s information technology initiatives aimed at reducing health care costs and improving quality of care?
- How, if at all, will the state reform its Medicaid program, and what effect would the changes have on an increasingly strained safety net and access to health care for low-income people in the Syracuse market?

To date, ongoing budget problems at the state and local level have not resulted in major cuts in public coverage programs and have had little or no effect on the safety net in Syracuse.
Syracuse is one of 12 metropolitan communities tracked through site visits by the Center for Studying Health System Change.

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