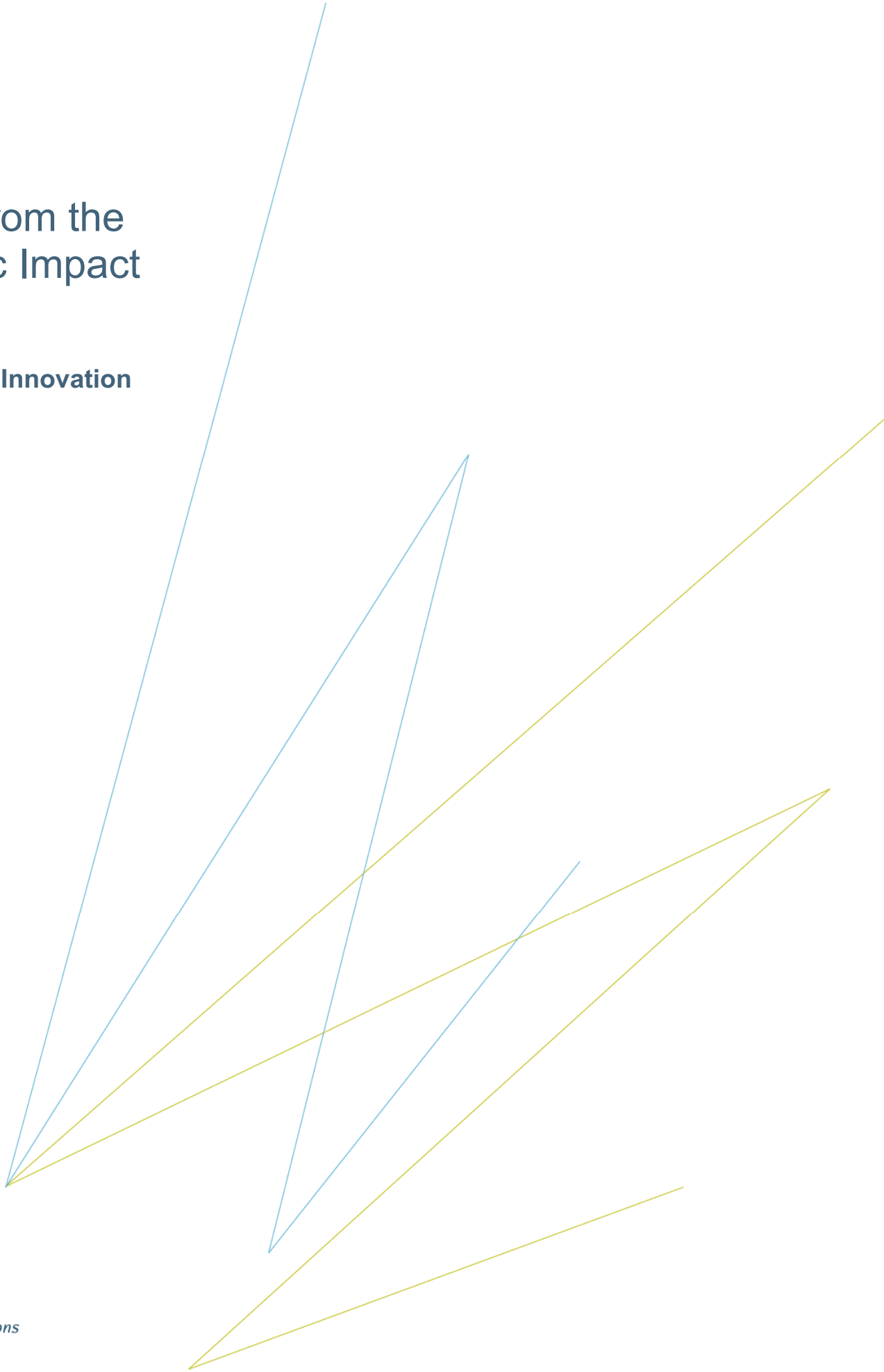


Results from the Economic Impact Survey

Noblis Health Innovation

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Noblis – Center for Health Innovation

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The health care news media has carried numerous stories in the past six months that suggest the national economic crisis is starting to have an effect on the health care industry. While economic conditions have been changing very rapidly, public data about recent hospital performance has been limited. Noblis conducted a survey of 36 hospitals during the month of November 2008 to assess the impact of the national economic crisis on hospital utilization, profitability, access to capital, capital spending, and strategies in response to the changes in the economy. This document summarizes key findings from the Noblis survey.

Methodology and Participants

Noblis contacted a subset of current and prior clients who agreed to complete a short 20-minute survey on the impact of the economic crisis on their hospital/health system. The survey included 15 questions related to:

- Utilization – Inpatient and outpatient
- Profitability – Operating margin and percent bad debt/charity care
- Access to capital – Challenges related to accessing capital and philanthropy/fund raising
- Capital projects – Status of current and future projects
- Strategies in response to the crisis

The survey included 36 hospitals and health systems ranging in size from 41 to 898 inpatient beds. Two-thirds of the surveys were completed by the hospital CEO or CFO; surveys were completed by phone or through an online survey instrument.

<u>Number of beds</u>	<u>Number of hospitals surveyed</u>
<100	3
100-250	10
251-500	14
>500	9

Key Findings

Survey participants were cautiously optimistic about the future. While the majority of hospitals experienced some difficulty accessing capital in the last six months, most expected utilization and profitability to stay the same or increase in the future. Hospitals have taken or decided to take some proactive steps to address potential impact of the economic crisis, mainly in the form of capital and other spending reductions, hiring freezes, and layoffs. Hospitals are also considering divestiture of non-profitable locations or services.

	<u>Current State</u>	<u>Future State</u>
Utilization	👍	👍
Profitability	👍	👍
Access to Capital		
Capital Markets	👎	?
Philanthropy	👉	?
Capital Investments		
Routine	n/a	👎
Major Initiatives	👎	👎

👍 increase, 👎 decrease, 👉 stable, ? unknown

Detailed Survey Results

Utilization

Survey participants were asked to reflect on changes in inpatient and outpatient utilization for the recent year and projected changes in utilization for the next 12 months.

Percentage of Participants Describing Change in Utilization (Last 12 months)		
	Inpatient	Outpatient
Increased	54.3%	77.1%
Stayed the same	20.0%	11.4%
Decreased	25.7%	11.4%

Note: Results are based on 35 responses.

The majority of hospitals indicated that both inpatient and outpatient utilization increased one to five percent in the last year. Sixty-eight percent of the survey participants also commented that utilization had stayed the same or gotten better in the last quarter in spite of continued slowing of the economy.

Inpatient services that were often identified as shrinking were cardiac and surgical services and the change was attributed to a shift towards outpatient and deferment of elective procedures. Several hospitals identified imaging as the outpatient service that has grown most in the last 12 months.

Percentage of Participants Projecting Future Change in Utilization (Next 12 months)		
	Inpatient	Outpatient
Increase	71.0%	81.8%
Stay the same	16.1%	12.1%
Decrease	12.9%	6.1%

Note: Results are based on 35 responses.

Survey participants were optimistic about future utilization. The majority of respondents expected utilization to increase by zero to five percent during the next 12 months. A few hospitals expressed concern about the economy and a possible slowdown in elective procedures that can be deferred and physician office visits.

Profitability

Survey participants were asked to reflect on changes to operating margins and percentage of bad debt and charity care during the past year and project changes in the next 12 months.

The majority of participants expected their operating margin to increase or stay the same over the next 12 months even though operating margin had decreased during the last month/quarter for the majority of participating hospitals/health systems.

While participating hospitals had a positive outlook about operating margin in the next 12 months, they were concerned about the

Percentage of Participants Describing Change in Operating Margin		
	Over Last Quarter/Month	Next 12 Months
Increase	21.7%	47.8%
Stay the same	21.7%	13.0%
Decrease	56.6%	39.2%

Note: Results are based on 23 responses.

magnitude of investment losses. The relatively new accounting rule for “Other-than-temporary impairment of investments” requires organizations to write-down investment losses unless they are expected to rebound soon. The new rule is expected to result in significant write-offs this year.

Survey participants also expressed concern about a potential rise in bad debt expense over the next 12 months. Rises in bad debt were attributed to increasing unemployment and increased competition. Interestingly, a number of Massachusetts hospitals that participated in the survey noted that charity care was decreasing since a larger percentage of the population is insured under the Massachusetts Health Reform Plan.

Access to Capital

Survey participants were asked to reflect on the difficulty in accessing capital or refinancing during the past 6–9 months as well as any significant changes in philanthropic fundraising.

Access to Capital or Refinancing	
	<u>Past 6-9 Months</u>
Difficult/Tougher terms	15
Things are okay	2
NA – Did not access capital	13

Note: Results are based on 30 responses.

Fifteen of the seventeen survey participants who had attempted to access capital or refinance in the past 6–9 months indicated that the market was difficult. Specific comments from respondents included the following: “*it is impossible to get new capital,*” “*need a deposit*

relationship with a bank to be able to refinance,” “*interest rates have increased,*” “*banks have basically shut down,*” “*interest payments are going to go up substantially,*” “*need collateral to get a loan.*”

Philanthropic Fundraising	
	<u>Past Year</u>
No change	46.2%
Increased	26.9%
Decreased	26.9%

Note: Results are based on 26 responses.

Philanthropic fundraising was still seen as a relatively stable source of capital for hospitals. Seventy-three percent of the hospitals indicated that there was no change or an increase in philanthropic fundraising during the past year.

Capital Spending

Survey participants were asked to reflect on changes to routine capital spending and major capital spending initiatives including major information technology projects, medical technology/equipment, or facilities projects. Participants were also asked if they planned on reconsidering any future capital spending.

Projected Routine Capital Spending	
	<u>Next 12 Months</u>
No change	30.8%
Increase	11.5%
Decrease by 0–30%	26.9%
Decrease by more than 30%	30.8%

Note: Results are based on 26 responses.

The majority of hospitals surveyed indicated that they plan on reducing capital spending over the next 12 months. Thirty-one percent of the surveyed hospitals plan on reducing routine capital spending by more than 30 percent. Hospitals described the capital expenditure cuts by comments such as, “*stop whatever could be*

stopped, “*deliberately budgeted less,*” “*prioritize what is needed,*” “*the only capital projects will be for replacement of non-working capital equipment.*”

Two-thirds of the surveyed hospitals had already halted, resized, or changed major capital projects. Several hospitals indicated that even though they had not halted or resized major capital projects, they had slowed them down. Hospitals also indicated that projects that were still being supported were revenue-generating in nature or projects with quick payback. Projects described as halted were mainly facility-related – renovations, expansions, and new operating rooms.

Strategies in Response to Changes in the Economy

Surveyed hospitals are planning on using multiple strategies to respond to the changing economy. Hospitals had already reduced or were committed to reduce capital and other spending. A large number of surveyed hospitals had instituted a hiring freeze and were being extremely cautious about any new hiring. A few hospitals had laid off or were planning to layoff staff in an attempt to curtail operating expenses. When asked what other strategies were being considered, survey participants overwhelmingly (74 percent of the responses) identified closure of services or locations that were non-core or losing money.

Conclusion

The survey results suggest that hospitals are clearly feeling the impact of the economic crisis most acutely in two ways – dramatic losses in investment income and difficulty accessing capital. The impact on utilization and payment appears to be more limited at this time for the hospitals we spoke to. While there are signs of a slowdown in utilization, our findings did not yet demonstrate a clear trend. As the economic cycle plays out and unemployment continues to rise, as many economists expect, we anticipate a more broad-based negative impact on hospital utilization and payments.

Our survey respondents were more optimistic about the future for their hospitals than other industry literature suggests. One possible explanation is that the prevailing “gloom and doom” in the media is overshadowing the bright spots that do exist. Nonetheless, hospitals are taking proactive steps by curtailing expenses and re-evaluating current investments in facilities and services. Implementing these strategies effectively will assist hospitals to ride out the economic downturn.