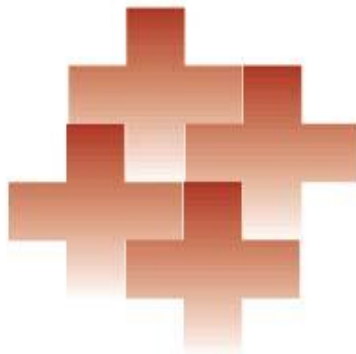


Report on Effect of Economic Crash on Delaware Hospitals



Delaware Healthcare Association

May 26th, 2009

Overview

Delaware hospitals remain the backbone of our state's economy. Expansions planned and underway will provide thousands of contractor and vendor jobs as well as thousands of additional well paying, full time, employment opportunities for Delaware citizens.

Findings

However, threats to this vital employment sector that provides excellent and quality healthcare for our state's citizens exist. The **current economic crash has weakened the finances and financial performance of hospitals** – threatening the ability of our sector to not only grow and expand, but also to exist as currently configured or planned in some locations:

All but one Delaware hospital had a **profit and loss statement loss** for the fourth quarter of 2008;

All Delaware hospitals experienced **double digit percentage losses in their investment portfolios**, in the amount of almost \$320 million. This threatens the very expansion needed by the state from our vital industry;

As a result of weakening finances and investment losses, Delaware hospitals have **delayed or eliminated hundreds of millions of dollars of planned capital expenditures** for new facilities and expansions;

Two Delaware hospitals are experiencing an operating loss – an unsustainable situation that would lead to hospital closure if not corrected;

Delaware hospitals are reporting reductions in revenues due to lower admissions, increases in uncompensated care and increases in Medicaid covered patients (state Medicaid reimbursements to hospitals do not fully cover the cost of services provided).

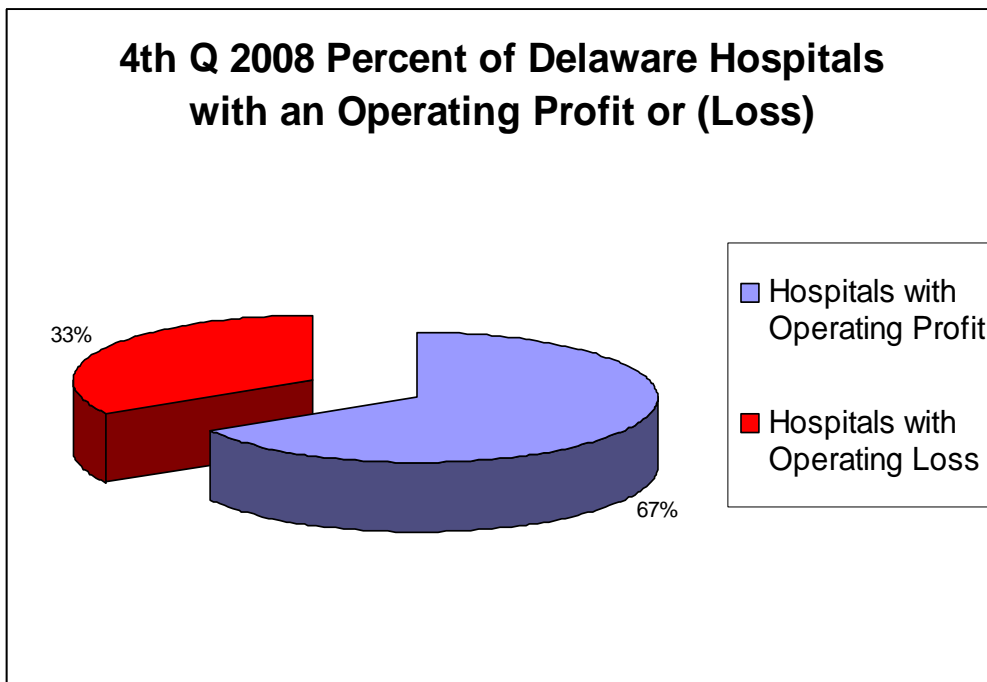
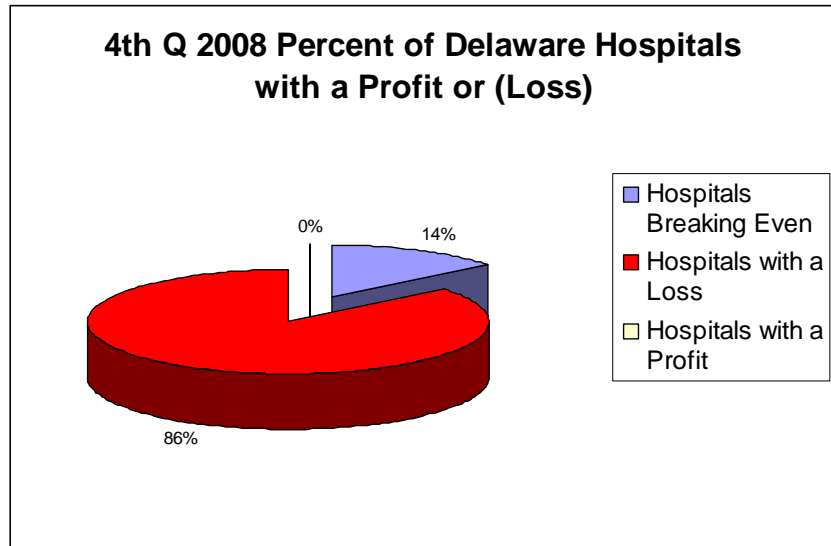
State Actions

On the minus side, the **State of Delaware has reduced hospital Medicaid reimbursements** as of April 1, 2009 by an amount that will cost the State's hospitals \$12.5 million annually.

On the plus side, the **State of Delaware wisely avoided imposing a hospital tax** (also known as a "sick tax") on Delaware's hospitals in 2008. Had this tax been implemented, it was a certainty that some hospitals would have lost money on the scheme (a requirement of the federal government). Some other states have redirected hospital support funds away from hospitals to cover budget gaps – leaving health care providers in some cases with the tax in place and less or none of the promised financial support that hospitals expected to receive under their state's hospital tax scheme.



Delaware Hospitals are experiencing significant *Profit and Loss statement* losses.

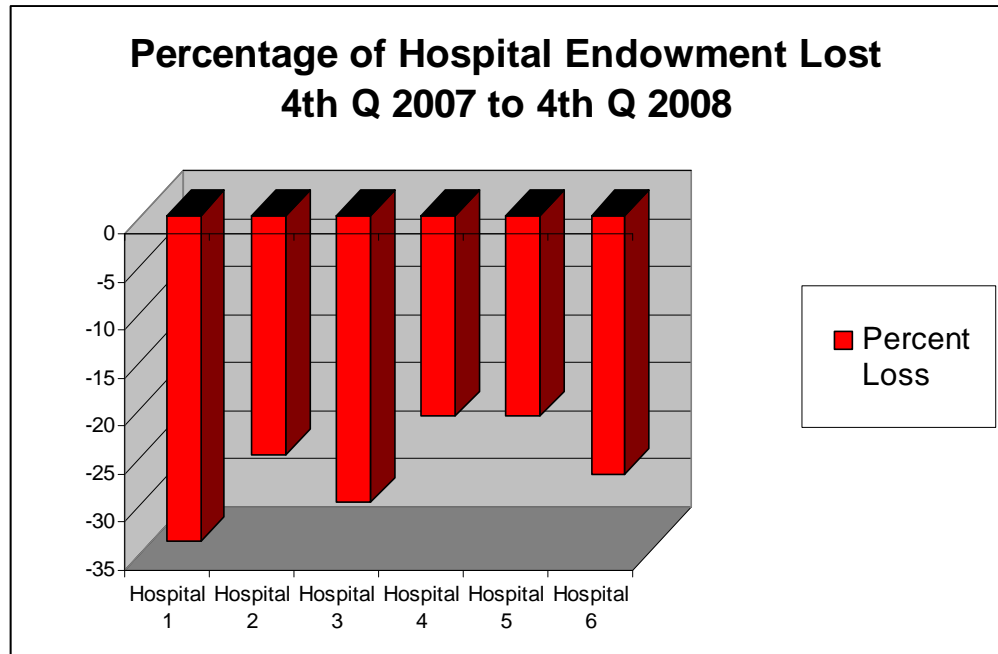


In terms of operating profit, the result of subtracting operating expenses from operating revenues (excluding losses on investments), a third of Delaware hospitals are operating at a loss. This is unsustainable over time as hospitals must be able to generate and collect enough revenue to cover the costs of providing care to

patients. Sustained operating losses are the leading cause of hospital closures across the nation.

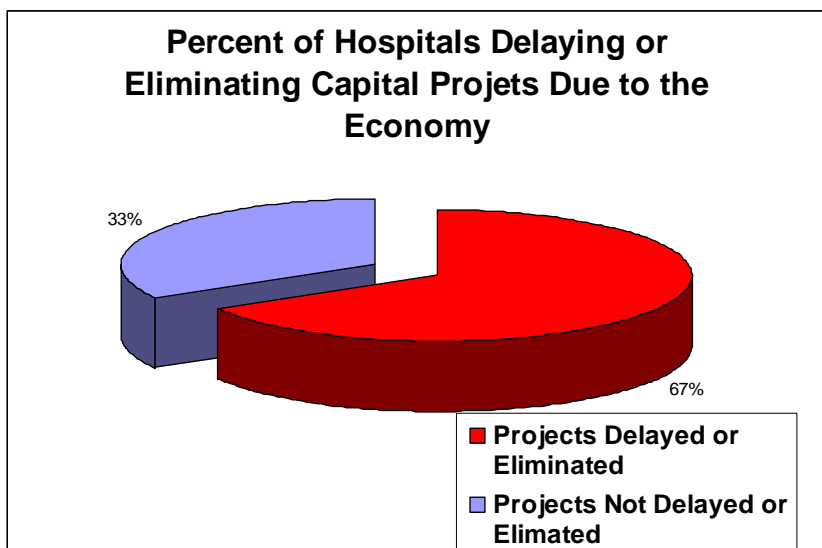


Delaware hospital endowments – the only source of funds to modernize, expand, and maintain hospital facilities and procure major new medical equipment, have shrunk by hundreds of millions of dollars with the economic crash Delaware



and the nation are facing. The combined loss of endowment value is almost a staggering \$320 million dollars between the fourth quarter of 2007 to the fourth quarter of 2008.

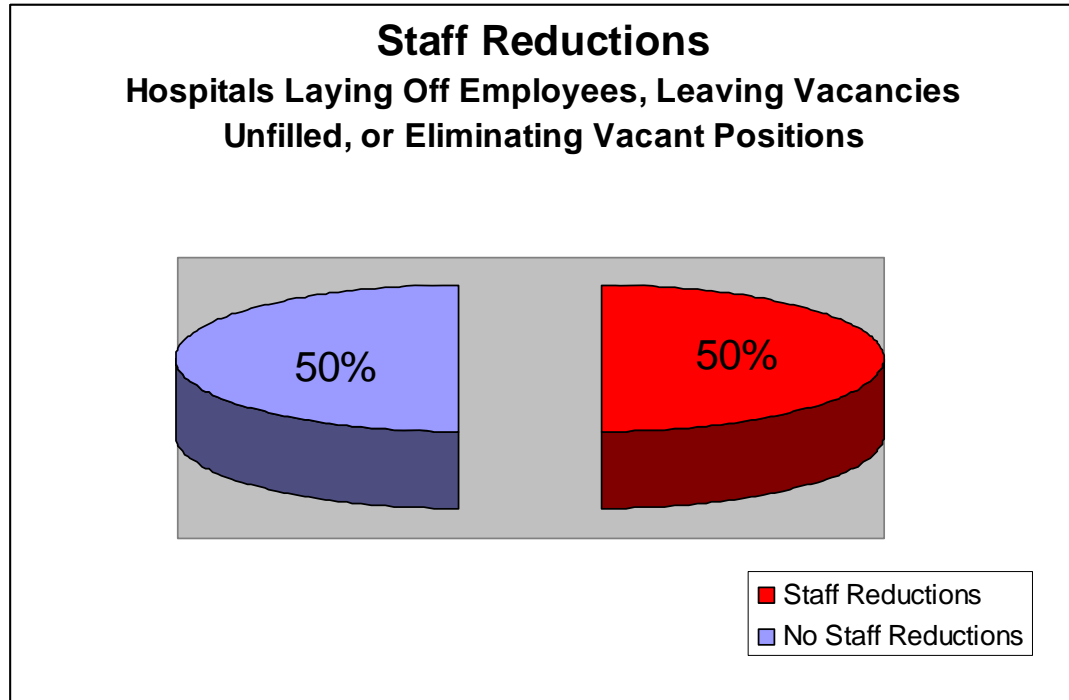
Loss of capital dollars means hospitals have fewer resources to expand facilities and equipment to provide for population growth in a timely basis. Delaware hospitals *individually* report:



- delaying a major expansion of hospital rooms in a new hospital addition;
- a 30% reduction in planned capital expenditures;
- a \$64 million expansion delayed;
- \$41 million in new facilities delayed or eliminated.



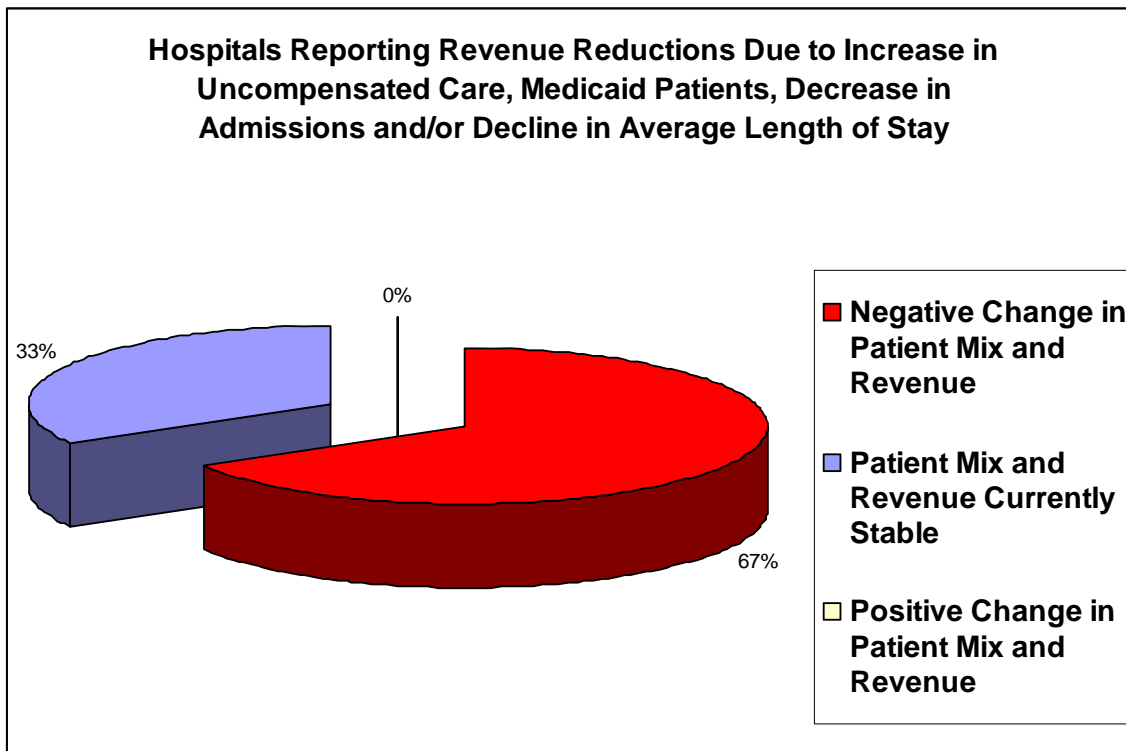
Economic uncertainty affects jobs and staffing levels. While healthcare has been the only sector of the national and Delaware economies to show slight growth from the summer of 2008 through the end of the first quarter of



2009, the most recent analysis shows the health care sector flat in terms of job growth. Individual hospitals and facilities have met this period of financial challenge in Delaware by laying off personnel, leaving vacant positions unfilled, slowing the pace in the hiring of replacements for retirees, and eliminating vacant positions from budgets.



Job losses and shrinking business profits lead to increases in uncompensated care for hospitals, increases in State Medicaid rolls (whose reimbursements to healthcare providers are less than the costs of services provided), decreases in hospital admissions, and decreases in the average length of stay at hospitals. All of these trend changes reduce hospital revenues and cash collections, leading some hospitals to operating losses, budget reductions, and/or a weakening of institutional financial positions.



Delaware’s hospitals remain committed to meeting the needs of our State’s citizens for timely and high quality health care services. Our ability to operate at consistent levels of excellence in terms of patient safety and quality has not been diminished – that remains the mission and experience of every hospital member of the Delaware Healthcare Association. However, financial stress and financial uncertainty make achieving all of the additional goals of Delaware’s hospitals more difficult. Budgets and staffing have been reduced and capital outlays deferred or eliminated in order to meet our quality and patient safety goals. While we are confident Delaware’s hospitals can ride out this current economic crisis, it is important to understand that our hospitals are weakened by the economy like every other business and institution. Government actions can make more difficult the mission attainment of the excellent non-profit hospitals that provide healing and quality healthcare to our state’s citizens.



**The American Hospital Association's
Report**

***The Economic Crisis: The Toll on the Patients
and Communities Hospitals Serve***

April 27, 2009



American Hospital Association

The Economic Crisis:
*The Toll on the Patients and
Communities Hospitals Serve*

April 27, 2009

Executive Summary

- **The economy is taking its toll on the patients and communities hospitals serve. For the majority of hospitals:**
 - The proportion of emergency department patients without insurance is increasing.
 - A higher proportion of patients are unable to pay for care and many hospitals are seeing more patients covered by Medicaid and other public programs for low income populations.
 - Fewer patients are seeking inpatient and elective services raising concerns that individuals are putting off needed care.
 - Community need for subsidized services such as clinics, screenings and outreach is increasing even as charitable contributions are down for many hospitals.
- **Nine in 10 hospitals have made cutbacks to address economic concerns.**
 - Nearly half have reduced staff.
 - Eight in 10 have cut administrative expenses.
 - One in five have reduced services communities depend on including behavioral health, post acute care, clinic, patient education and other services that require subsidies.

Executive Summary (cont.)

- **Despite these actions, seven of 10 hospitals report a decline in overall financial health which will impact their ability to care for their communities.**
 - 43 percent of hospitals expect losses in the first quarter up from 26 percent for the same period last year.
 - Indicators of the ability of hospitals to meet their financial obligations are slipping.
- **Nearly all hospitals report that the capital situation has not improved or is still deteriorating since December of last year.**
 - Since the beginning of 2008, eight of 10 hospitals have cut capital spending for facility upgrades, clinical technology and/or information technology.
- **Eight in 10 hospitals report an increase in the degree to which physicians are seeking the financial support of hospitals including on-call pay and/or employment.**



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Methodology

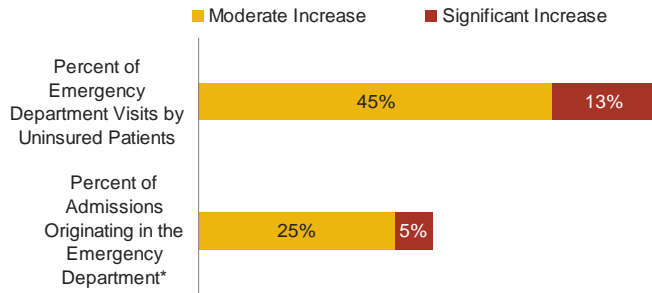
- **AHA Survey, *The Economic Crisis: Ongoing Monitoring of Impact on Hospitals***
 - Survey was sent to all community hospital CEOs on March 5, 2009 via fax and e-mail.
 - Data was collected through March 27, 2009.
 - 1078 responses were received.
 - Respondents were broadly representative of universe of community hospitals.
- Data on employment trends from the Bureau of Labor Statistics.



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The proportion of emergency department patients without insurance is increasing for six out of 10 hospitals.

Use of Emergency Department by Uninsured Patients and Admissions Originating in the Emergency Department, 2009 Calendar Year to Date versus Same Period Last Year



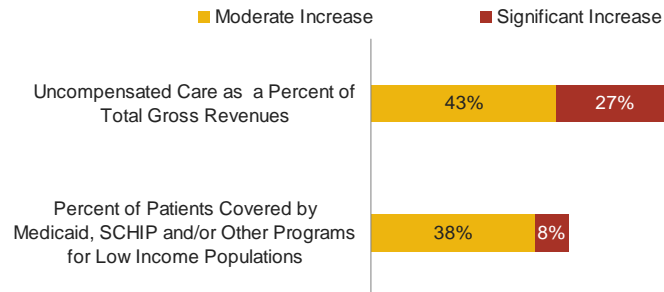
*Can indicate that patients are putting off care until conditions become urgent or emergent and/or fewer patients are seeking elective (scheduled) services.

Source: AHA, (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

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The proportion of patients unable to pay for care or covered by Medicaid or other public programs for low income populations is increasing for many hospitals.

Change in Uncompensated Care and Patients Covered by Medicaid and Other Programs for Low Income Populations, 2009 Calendar Year to Date versus Same Period Last Year

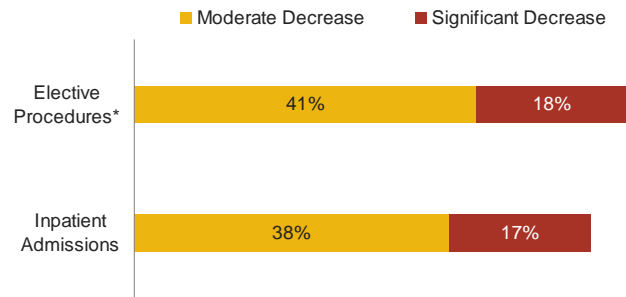


Source: AHA, (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

6

The majority of hospitals report fewer patients are seeking inpatient and elective care.

Percent of Hospitals Reporting a Moderate to Significant Decrease in Patients Served, 2009 Calendar Year to Date versus Same Period Last Year



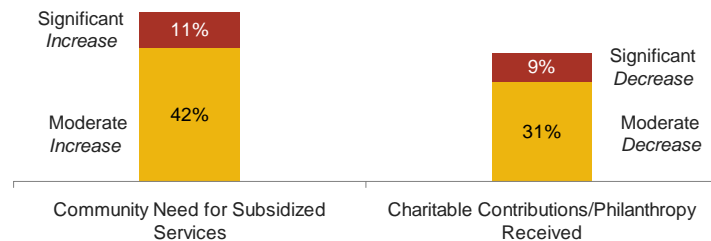
* "Elective" refers to procedures that are scheduled in advance as opposed to performed on an emergency basis.

Source: AHA, (March 2009), Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

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Over half of hospitals are seeing an increased need for subsidized services, such as clinics, screenings and outreach, even while many are receiving less philanthropic support.

Percent of Hospitals Reporting a Moderate to Significant *Increase* in the Need for Subsidized Services and a Moderate to Significant *Decrease* in Charitable Contributions and Philanthropy Received, 2009 Calendar Year to Date versus Same Period Last Year

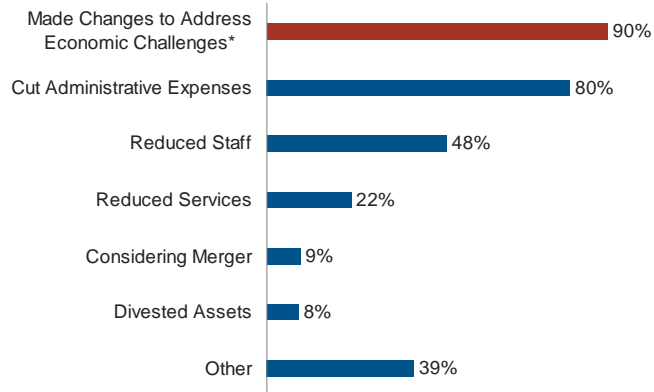


Source: AHA, (March 2009), Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

8

Nine in 10 hospitals have made cutbacks to address economic challenges.

Percent of Hospitals Making Changes in Response to Economic Concerns since September 2008

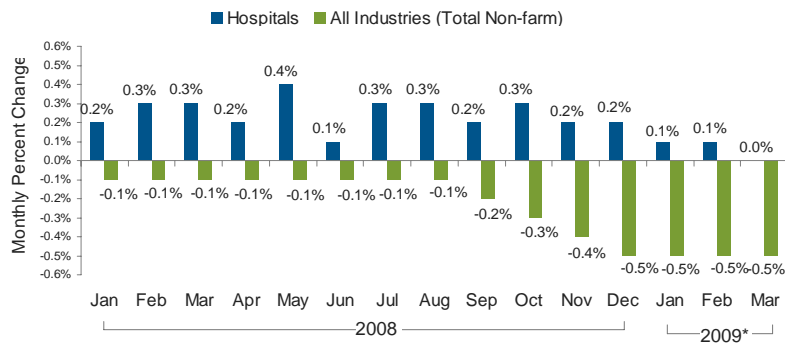


*Percent of hospitals making at least one of above changes to weather the economic storm.
Source: AHA, (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

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Bureau of Labor Statistics data confirm that hospital employment is no longer growing...

Percent Change in Employment, Seasonally Adjusted: Hospital vs. All Industries (Total Non-farm), 2008-2009



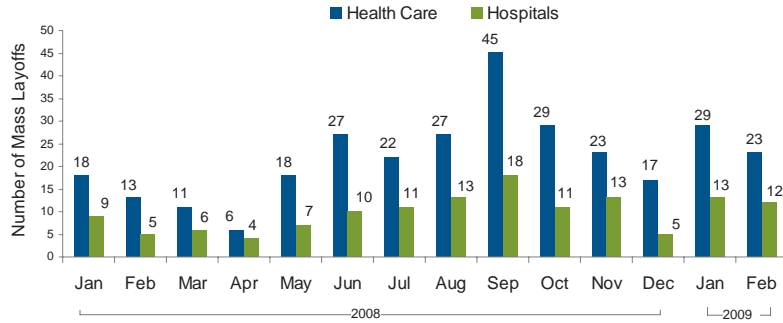
Source: Department of Labor, Bureau of Labor Statistics. (2009). Link: <http://www.bls.gov/bls/employment.htm>.
*February and March 2009 data are preliminary.



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...and the number of mass layoffs reported for hospitals in February was more than double what it was a year ago.

Mass Layoffs*: Hospitals and Health Care, 2008-2009



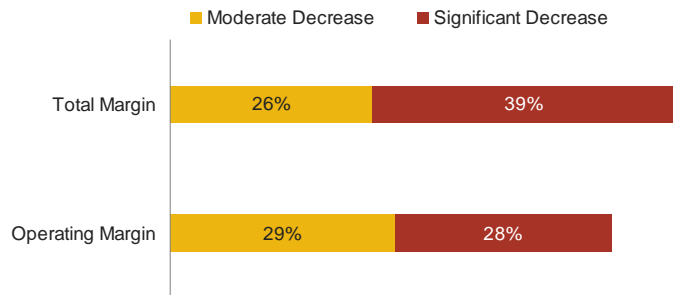
*An action involving 50 or more people at a single employer.

Source: Department of Labor, Bureau of Labor Statistics, (2009).
 Link: <http://data.bls.gov/PDQ/outside.jsp?survey=ml>. Data not seasonally adjusted.



The majority of hospitals are seeing a decline in financial health...

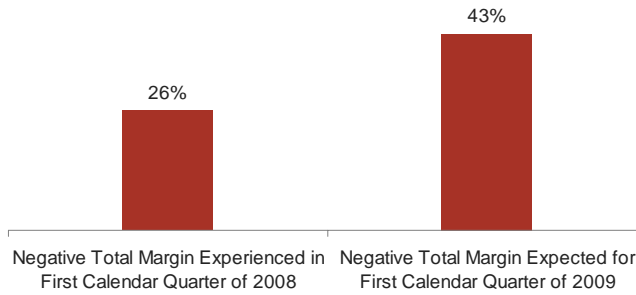
Percent of Hospitals Reporting a Moderate to Significant *Decrease* in Total and Operating Margin, 2009 Calendar Year to Date versus Same Period Last Year



Source: AHA, (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

... with over 40 percent expecting losses in the first quarter of 2009, jeopardizing care for communities.

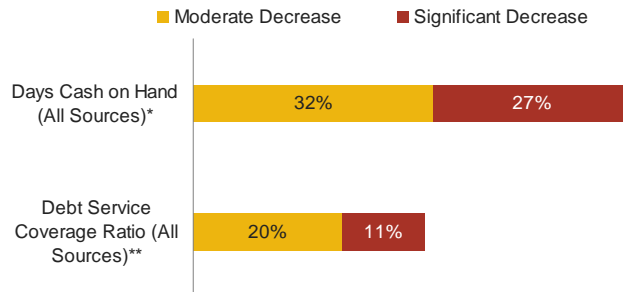
Percent of Hospitals Reporting a Negative Total Margin, 2009 Calendar Year to Date versus Same Period Last Year



Source: AHA. (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

Financial measures important to creditors are slipping. If key measures fall below a certain level, creditors can require immediate repayment of borrowed money.

Percent of Hospitals Reporting a Moderate to Significant Decrease in Days Cash on Hand and Debt Service Coverage Ratio, 2009 Calendar Year to Date versus Same Period Last Year



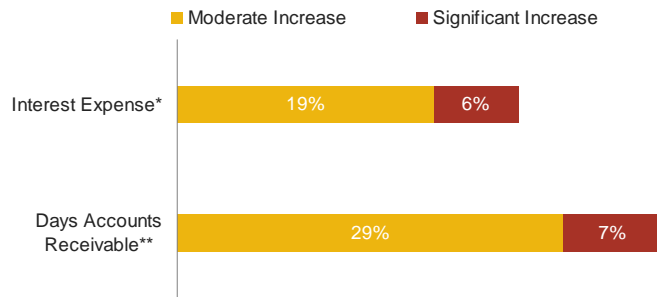
*How long a hospital could continue to meet its financial obligations if all revenues stopped.

**The ratio of a hospital's annual net income to the amount it must pay its creditors—a key measure of a hospital's ability to meet its financial obligations.

Source: AHA. (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

Many hospitals are seeing an increase in interest expense at the same time payments from insurers are coming in more slowly.

Percent of Hospitals Reporting a Moderate to Significant Increase in Interest Expense and Days in Accounts Receivable, 2009 Calendar Year to Date versus Same Period Last Year



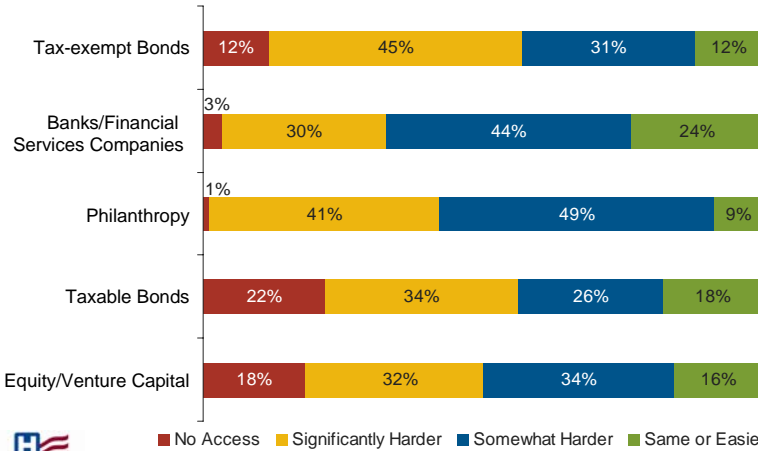
*Amount hospitals pay in interest on borrowed money.

**Average number of days it takes for a hospital to receive payment for services.

Source: AHA. (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

In a December survey, many hospitals reported that it was significantly more difficult or even impossible to access tax-exempt bonds and other sources of capital to make improvements.

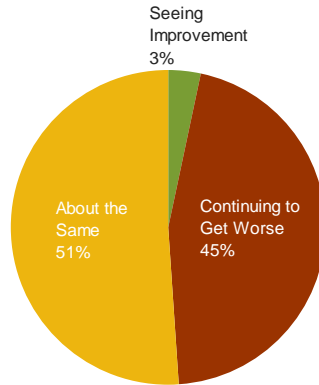
Percent of Hospitals* Finding Access to Various Types of Capital More Difficult, December/January 2009



Source: AHA. (January 2009). Rapid Response Survey, Report on the Capital Crisis: Impact on Hospitals. *Excludes those hospitals indicating that they don't use that source of capital.

Nearly all hospitals report that the capital situation is either not improving or getting worse.

Percent of Hospitals Reporting Change in Ability to Access Capital Since December 2008

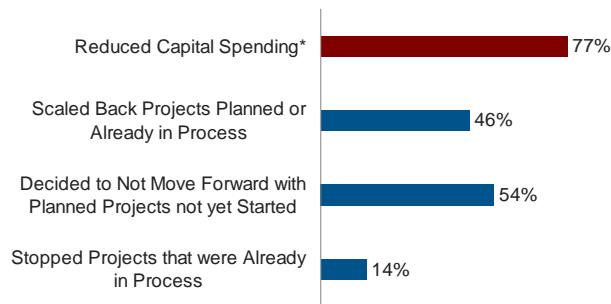


Source: AHA, (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

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Nearly eight of 10 hospitals have stopped, postponed or scaled back projects planned or already in progress.

Percent of Hospitals Reducing Expenditures on Capital Projects because of the Capital Crisis Beginning Early in 2008

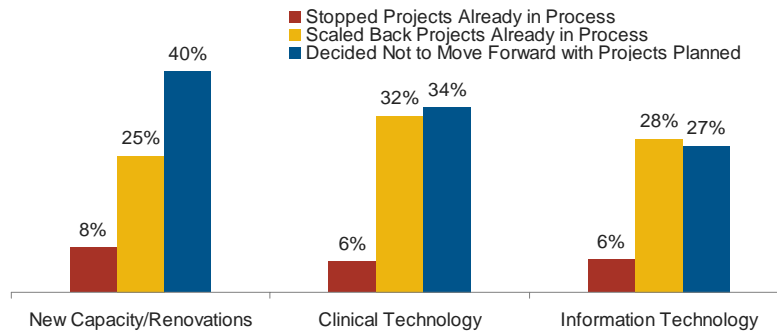


Source: AHA, (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.
*Includes any hospital reporting that it had scaled back, decided not to move forward with or stopped projects planned or already in process.

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Projects scaled back or eliminated include facility upgrades as well as clinical and information technology.

Percent of Hospitals Reporting a Change in Capital Plans since Capital Crisis Began in Early 2008

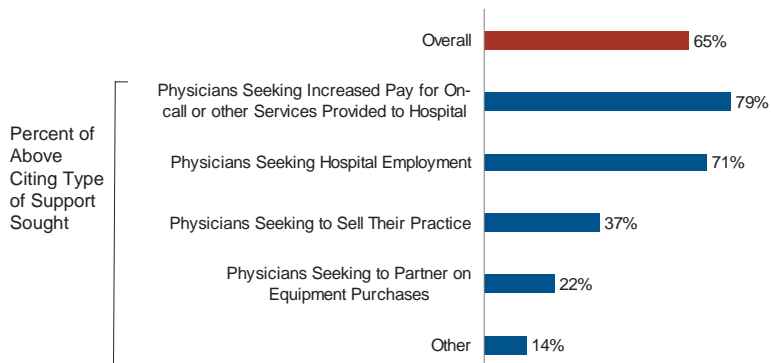


Source: AHA. (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

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Stress on physicians is evident as more are seeking the financial support of hospitals.

Percent of Hospitals Reporting an Increase in the Degree to which Physicians are Seeking Financial Support from Hospitals Since Economic Conditions Began to Deteriorate in September 2008



Source: AHA. (March 2009). Rapid Response Survey, The Economic Crisis: Ongoing Monitoring of Impact on Hospitals.

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Delaware Healthcare Association

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