

ISSUE BRIEF: CONNECTICUT HOSPITALS SHOW FINANCIAL IMPROVEMENT IN FISCAL YEAR (FY) 2009

Introduction

Despite a difficult year in FY 2008, Connecticut's acute care hospitals have demonstrated resiliency to a challenging economic climate through improved profit margins in FY 2009. Hospitals' total margin averaged 2.62% in FY 2009, a significant improvement from FY 2008 when an average of -0.90% was reported. In addition, more than three quarters (77%) of hospitals had a positive total margin, compared to less than half (47%) in FY 2008.

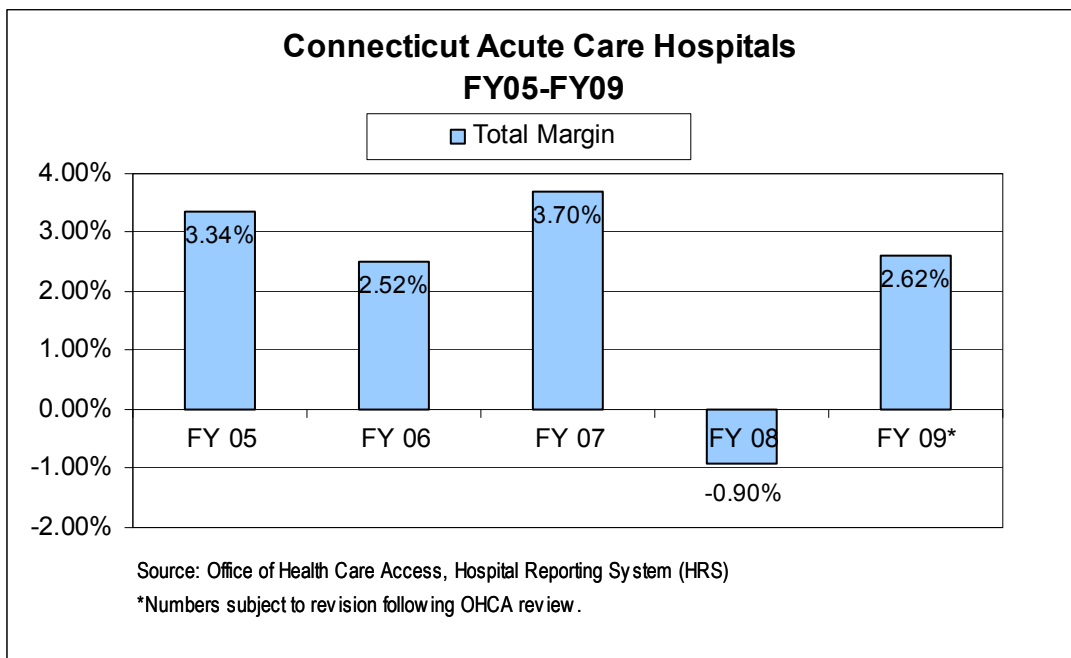
Total margin, defined as the excess of revenues over expenses, divided by revenues, reflects profits from a hospital's operations (primarily patient care) and non operations (e.g., investments, donations). Operating margin and non operating margin reflect profitability by individual component.

Overall in FY 2009, hospitals have improved their operating margin performance and suffered less severe non operating losses. However, rapid advances in technology, an aging population, reimbursement and cost pressures, growing competition and health care reform initiatives will present both challenges and opportunities in the near future.

This brief will examine financial performance of Connecticut's acute care hospitals in FY 2009 by examining three measures of profit: total, operating and non operating margins. Higher positive numbers indicate more favorable results.

Connecticut’s acute care hospitals were able to improve their financial performance in FY 2009, despite lingering economic challenges. More than three quarters (77%) of hospitals had a positive total margin, compared to less than half (47%) in FY 2008. Total margin is a measure of profit that indicates how much money an organization has left after reconciling its revenues with its expenses. It also includes gains and losses from investments. For FY 2009, hospitals’ total margin averaged 2.62%, compared to -0.90% in FY 2008 (Figure 1) and was primarily the result of operational gains (\$238.7 M). Unfortunately, hospitals continue to experience non-operating revenue losses (-\$7.8 M), however FY 2009 losses were not nearly as extensive as those experienced in FY 2008 (-\$181.8 M).

Figure 1



For FY 2009, Danbury (8.01%) and St. Mary’s (6.23%) Hospitals reported the highest total margins, while Johnson Memorial Hospital (-8.48%) and New Milford Hospital (-5.52%) posted the lowest (Table 1). Johnson Memorial Hospital experienced both operating and non operating losses. Overall, the statewide average for total margin was 2.62%.

Table 1

Hospital	Hospital Margins for FY 2009		
	Operating	Non-Operating	Total
Danbury	5.17%	2.84%	8.01%
St Mary's	4.52%	1.72%	6.23%
Middlesex	6.53%	-0.74%	5.79%
CT Children's Medical Ctr.	4.01%	1.49%	5.50%
Essent-Sharon	5.18%	0.00%	5.18%
Lawrence & Memorial	5.31%	-0.15%	5.16%
Norwalk	4.14%	0.32%	4.46%
William Backus	4.88%	-0.50%	4.38%

Yale-New Haven	5.51%	-1.19%	4.33%
Stamford	4.21%	-0.22%	3.99%
Hospital of Central CT	2.95%	0.86%	3.81%
Manchester	4.21%	-0.83%	3.38%
Greenwich	3.61%	-0.37%	3.24%
MidState Medical Ctr.	3.20%	-0.19%	3.01%
Rockville	5.54%	-3.52%	2.01%
St Vincent's	3.10%	-1.09%	2.01%
St Francis	2.72%	-0.95%	1.77%
Day Kimball	2.26%	-0.67%	1.59%
John Dempsey	-4.36%	5.61%	1.25%
Griffin	2.32%	-1.30%	1.02%
Bridgeport	1.34%	-0.89%	0.45%
Bristol	0.04%	0.25%	0.29%
Charlotte Hungerford	0.84%	-0.67%	0.18%
Hartford	0.65%	-1.17%	-0.52%
Waterbury	-1.98%	1.22%	-0.76%
St Raphael	-1.30%	0.00%*	-1.30%
Windham	0.72%	-2.13%	-1.41%
Milford	-5.79%	1.51%	-4.27%
New Milford	-5.91%	0.39%	-5.52%
Johnson Memorial	-7.53%	-0.95%	-8.48%
Statewide Average	2.71%	-0.09%	2.62%

Source: Office of Health Care Access, Hospital Reporting System (HRS)

*Less than 0.01%

In FY 2009, Connecticut hospitals experienced a very slight increase in inpatient volume (0.4%) and small decreases in both patient days (-0.7%) and average length of stay (-1.1%)(Table 2).

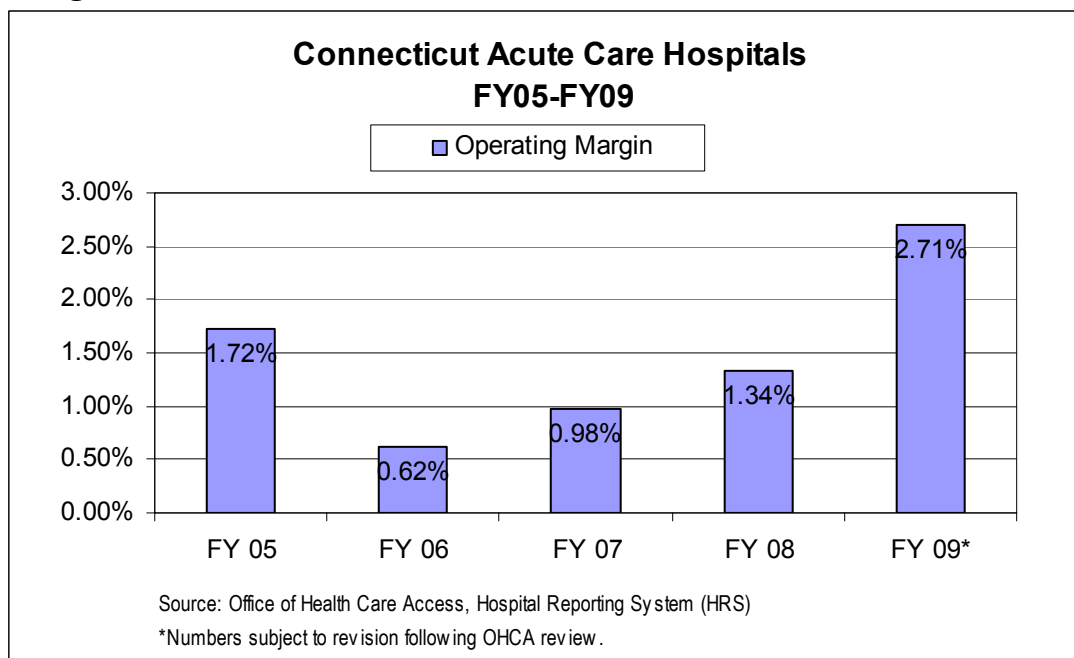
Table 2

Category	Statewide Acute Care Hospital Inpatient Utilization				
	FY 2007	FY 2008	% chg	FY 2009	% chg
Discharges	429,355	428,565	-0.2	430,159	0.4
Bed Days	2,062,451	2,091,205	1.4	2,076,937	-0.7
Avg. LOS	4.80	4.88	1.6	4.83	-1.1

Source: Office of Health Care Access, Acute Care Hospital Inpatient Discharge Database

Despite a poor economy and negligible growth in inpatient volumes, Connecticut’s hospitals have improved their operating margins (Figure 2). In FY 2009, operating margins increased to 2.71%, compared to 1.34% in FY 2008. This improvement was achieved mainly by hospitals’ ability to control costs and increase revenues. Growth in operating expenses (\$383 M, 5%) for FY 2009 was substantially less than in the previous year (\$603 M, 8%). During the same time period, hospitals were able to increase operating revenues by \$514 M (6%). Overall, Connecticut’s hospitals have improved their operating margins for the past three years. However, as noted in Table 1, several individual hospitals continue to struggle with this measure.

Figure 2



Historically, hospitals have used their non operating revenue to help supplement narrow operating margins. However, the latest economic downturn has negatively impacted both individuals and businesses in Connecticut and the nation. Hospitals have not been immune to these economic conditions, suffering investment losses and possibly fewer philanthropic donations. According to the American Hospital Association (AHA), the decline of the stock market has contributed to fewer charitable donations, a reduction of hospital reserves and turned non-operating gains to losses.¹ In Connecticut, hospitals reported non operating revenue losses of nearly \$182 M in FY 2008 and \$7.8 M in FY 2009, almost a complete reversal of the \$214.4 M of non operating revenue reported in FY 2007 (Table 3).

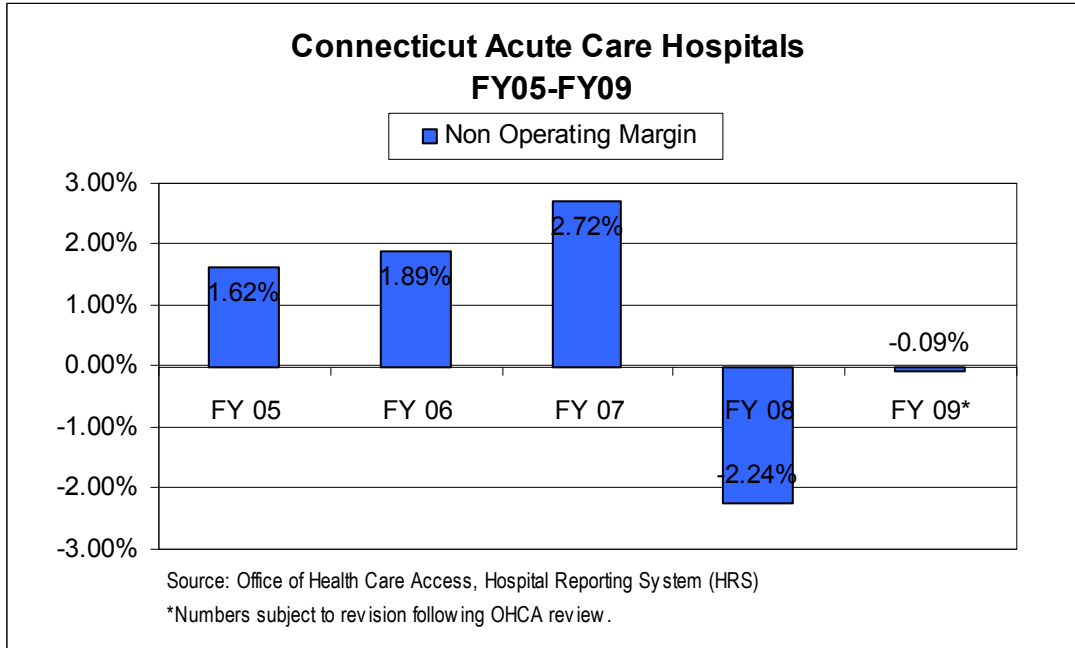
Table 3

Statewide	Acute Care Hospital Non Operating Revenue				
	FY 2007	FY 2008	% chg	FY 2009	% chg
Non Operating Revenue	214,440,149	(181,800,544)	-185%	(7,784,860)	96%

Source: Office of Health Care Access, Hospital Reporting System (HRS)

In FY 2008, hospitals experienced a very difficult year, reporting an average non operating margin of -2.24% (Figure 3). Losses for FY 2009 were not as severe (\$7.8 M), but hospitals' average non operating margin remained negative (-0.09%). Hopefully, investment losses will subside and hospitals' non operating margins will return to positive results.

Figure 3



¹ "Trends: Even as Health Reform Takes Center Stage, Economic Challenges Remain" based on Analysis of American Hospital Association Annual Survey data, 1980 - 2008, for community hospitals.

Summary

An improving economy, stock market turnaround and tighter control of expenses have led to slightly stronger profit margins at Connecticut's acute care hospitals in FY 2009. However, it is important to note that several individual hospitals continue to struggle with their operational performance. In addition, average non operating margins for Connecticut's hospitals were negative for the second straight year, eliminating the traditional buffer used to combat operational deficits. Furthermore, the effect of health care reform initiatives on the financial performance of hospitals is still unknown. The Office of Health Care Access (OHCA) will continue to monitor hospital profit measures and the overall financial stability of hospitals as the details of health care reform unfold. Additional financial information by individual hospital will be forthcoming in August 2010 in the *Financial Status of Connecticut's Short Term Acute Care Hospitals* publication.