

# Office of Health Care Access

## Issue Brief

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### THE RECESSION'S ECONOMIC IMPACT ON THE FAIR MARKET VALUE, EARNINGS AND AVAILABILITY OF CONNECTICUT ACUTE CARE HOSPITAL BED FUNDS (FISCAL YEARS 2007-2009)

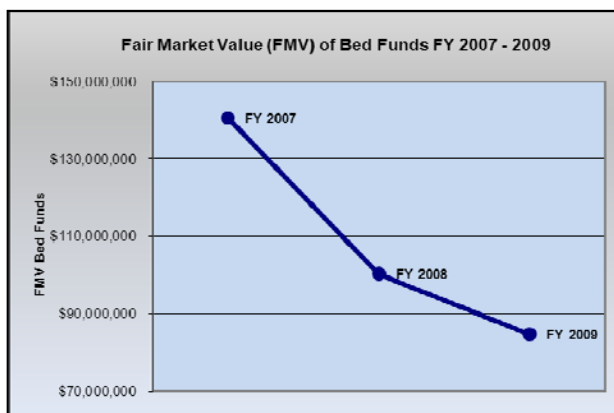
The recent economic downturn has adversely impacted the financial performance of Connecticut's acute care hospital endowments. Specifically, bed fund performance – one component of financial activity at the majority of hospitals – experienced a decline of 40% in fair market value<sup>1</sup>. In addition to the decline in value, income generated from these funds was drastically reduced. This is unfortunate, as bed fund income serves as an important source of funding to people seeking medical treatment, but lacking adequate resources to pay for their care.

In Connecticut, twenty-one<sup>2</sup> of the thirty acute care hospitals have administered bed funds of varying amounts over the past three years. Bed funds are defined under Section 19a-509b(a)(1), C.G.S., as "any gift of money, stock, bonds, financial instruments or other property made by any donor for the purpose of establishing a fund to provide medical care, including, but not limited to, inpatient or outpatient care to patients at a hospital. A hospital bed fund may be established by inter vivos gift, bequest, subscription, solicitation, dedication or any other means." Hospitals that administer bed funds are required to meet specific informational and accounting criteria that include: posting available bed fund information, providing staff training on eligibility requirements, and producing an accounting of bed fund activity.

Bed funds generally require that only the income generated from the fund principle is available for patient use and may even be further restricted for the treatment of a particular illness. In years when patient demand for assistance is great, hospitals may deplete all of the available bed fund income for patient care. However, in years with less demand, hospitals may choose to carry forward any unused earnings to the following year, or reinvest residual earnings as principal to bolster future income. In a poor economic climate, hospitals may have no income available for use due to investment losses and instead, may write-off the non-payment directly to charity care. However, write-offs to charity care are deducted from gross revenue and negatively impact hospitals' overall financial performance.

Examining bed fund data from FY 2007 to FY 2009 reveals that the total Fair Market Value of hospital bed funds<sup>3</sup> decreased from \$140.5 to \$84.6 million, nearly 40%, as shown in Chart 1.

Chart 1:



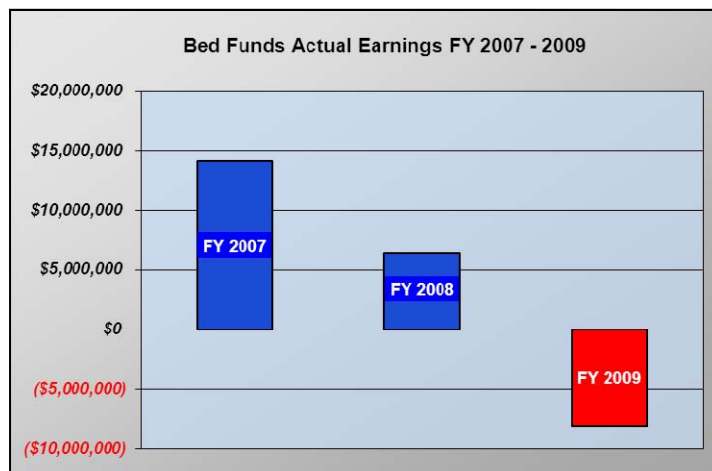
<sup>1</sup>Fair Market Value (in simplified terms) is the price that a given property or asset would change hands between a willing buyer and seller in an open market, at a given point in time.

<sup>2</sup>As reported by Connecticut acute care hospitals for the FY 2009 filing.

<sup>3</sup>Source: Department of Public Health – Office of Health Care Access Hospital Reporting System (HRS) Report 17B FY 2007-2009

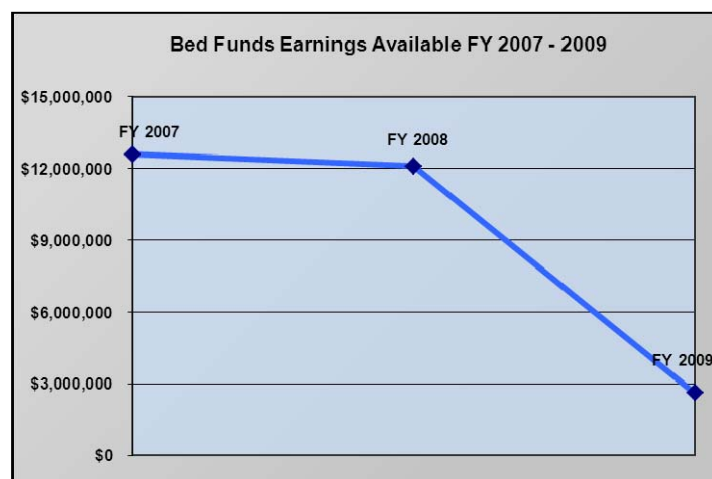
When the Fair Market Value of bed funds declines, it is likely that the income generated from these funds will decline as well.<sup>4</sup> As shown in Chart 2, earnings decreased 157% from a \$14.1 million gain in FY 2007 to an \$8.1 million loss in FY 2009. Nine hospitals (43%) experienced losses in FY 2009 compared to none in FY 2007.

**Chart 2:**



Hospitals that fail to generate income from their funds may still have earnings available for care if earnings from a previous year are carried forward. In FY 2009, however, six hospitals had insufficient earnings or carry forward from previous years to utilize their bed funds. Overall, earnings available<sup>5</sup> for use plummeted by 79%, dropping from \$12.6 million in FY 2007 to only \$2.6 million in FY 2009, as shown in Chart 3.

**Chart 3:**



Adverse economic conditions not only caused the value and earnings of the bed funds to decrease drastically, but also caused a heavier reliance on these funds. As shown in Chart 4, bed fund expenditures<sup>6</sup> increased 79 percent, from \$13.3 million in FY 2007 to approximately \$23.8 million in FY 2008, primarily due to increased demand for assistance. Accordingly, the number of bed fund recipients increased dramatically to 10,489 patients in FY 2008, compared to 4,623<sup>7</sup> patients in FY 2007, an increase of 127%. In contrast, with fewer available funds (see Chart 3) in FY 2009, bed fund expenditures plummeted 68% (down to \$7.5 million) and

<sup>4</sup>Source: Department of Public Health – Office of Health Care Access Hospital Reporting System (HRS) Report 17B FY 2007-2009

<sup>5</sup>Source: Department of Public Health – Office of Health Care Access Hospital Reporting System (HRS) Report 17B FY 2007-2009

<sup>6</sup>Source: Department of Public Health – Office of Health Care Access Hospital Reporting System (HRS) Report 17A FY 2007-2009

<sup>7</sup>Source: Department of Public Health – Office of Health Care Access Hospital Reporting System (HRS) Report 17B FY 2007-2009

recipients dropped to 3,593. Only fifteen of the twenty-one hospitals utilized bed funds in FY 2009, compared to eighteen in FY 2008. If weak economic conditions linger as expected, bed funds available for patient care will continue to be limited.

Chart 4:

