State of Connecticut

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Third Annual

Report on the Financial Status of Connecticut's Short-term Acute Care General Hospitals Submitted to the Public Health Committee

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The ***Third Annual Report on the Financial Status of Connecticut's Short Term Acute Care General Hospitals*** was prepared by the State of Connecticut Office of Health Care Access, Health Care Financing Unit. The report provides information concerning the financial stability of Connecticut's thirty-two short term acute care general hospitals in a competitive market, as mandated in Section 19a-169a of the Connecticut General Statutes.

The report uses the most recently filed hospital financial and statistical data for hospital fiscal year 1996 (October 1, 1995 to September 30, 1996). It is intended to provide quantitative and qualitative information as well as analytical insights on health policy issues which are important to the State of Connecticut and its citizens.

OHCA produces a variety of publications designed to inform health policy. A list of recent publications appears on the last page of this report. For copies of this or any other OHCA publication, please contact Pat Ferreira at (860) 418-7001.

EXECUTIVE SUMMARY

Connecticut's acute care hospitals operate within an increasingly complex system made up of payers, purchasers, providers, and consumers. Connecticut continues to experience change both **within** the elements of the system and in the relationships **among** the elements in the system. Consolidation of managed care organizations and hospital systems continues to occur at a rapid pace. Connecticut hospitals in particular have undergone a flurry of vertical and horizontal integration activity. In 1996, one community-based acute care general hospital closed.

This report provides information concerning the financial stability of Connecticut's thirty-two short term acute care general hospitals in a competitive market, as mandated in Section 19a-670 of the Connecticut General Statutes. Although the report is written primarily for policy makers within state government, the information it provides may be of interest to hospitals, health care consumers, managed care organizations and the general public.

Statewide Summary of Hospital Performance

Capacity & Utilization:

- There are thirty-two licensed acute care general hospitals in the state containing 9,800 licensed beds.
- The number of staffed beds is 7,494 — indicating excess capacity resulting from market pressures due to managed care and a shift to outpatient treatment settings due to medical advancements.
- Statewide, total staffed acute care beds declined 18% between FY 1993 and FY 1996 — from 9,119 to 7,494.
- Statewide average length of stay has declined 21% between FY 1993 and FY 1996 — from 6.3 days to 5.2 days — consistent with both national and northeast regional trends.
- Hospital mergers and affiliations, along with reduced occupancy rates, have forced many hospitals to reduce staff. All but eight of the state's acute care hospitals experienced a decline in full time equivalent positions from 1995 to 1996. An analysis of health services employment trends reflects this decline, showing a 9.5% drop in general medical and surgical hospital (SIC 8062) employment which equates to a loss of 5,600 jobs over the last five years (from 1991 to 1996).
- In turn, managed care growth may have stimulated hospital and medical service plans (SIC 6234) employment, which increased by 55 percent (over 2,100 jobs) from 1991 to 1996.
- Hospital statewide net revenues increased slightly to $1.9 billion in FY 1996.

This report uses the most recently filed hospital financial and statistical data for hospital fiscal year (FY) 1996 (October 1, 1995 to September 30, 1996). A two-year history of hospital operating ratios and statistics has been presented along with discussions of various health care issues and trends which may have affected hospital performance. In 1996 Connecticut hospitals adopted the provisions of FASB Statements No. 116, *Accounting for Contributions Received and Contributions Made*, No. 117, *Financial Statements of Not-for-Profit Organizations*, and No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. In accordance with these pronouncements FY 1995 results have been restated to reflect accounting standard changes.

Financial Ratios:

Operating Margin

The financial stability of the majority of acute care hospitals in the state improved during FY 1996. Healthier bottom lines at many hospitals increased the statewide average operating margin to 2.4% in FY 1996 from the FY 1995 level of 1.9%.

Current Ratio

Short term liquidity was not a problem overall for Connecticut hospitals during FY 1996, evidenced by the slight increase in availability of funds to meet expected operating expenses. The statewide current ratio measured liquidity at 1.8 to 1.

Equity Financing

The level of debt financing among Connecticut hospitals has remained relatively constant in the past year. Forecasters predict that Equity Financing Ratios will remain fairly constant over the next five years as hospitals attempt to improve the efficiency of their total investment and reduce capital expenditure growth rates.

Operating Results:

Hospital Charges:

In FY 1996, Connecticut statewide hospital outpatient charges continued to rise at a higher rate than inpatient charges. FY 1996 outpatient charges increased 29% to $1.8 billion over the FY 1993 level of $1.4 billion.

Government Payor Mix:

Governmental revenues comprised 59% of the total hospital gross revenues on an aggregate statewide basis in FY 1996.

The financial indicators contained in this report examine how hospitals are affected as Connecticut's health care delivery system continues to change in response to market pressures. **SECTION I**, entitled ***FY 1996 Industry Year in Review,*** provides an overview of activity for the year, includes a discussion of national and state trends, presents the hospital cost index, and includes summaries of Certificate of Need authorizations and hospital merger and affiliation activity.

Individual hospital results are provided in **SECTION II**, ***Individual Hospital Performance Indicators***. A variety of individual performance indicators for each of the thirty-two short-term acute care hospitals are charted in this section. The hospitals are presented in alphabetical order; four pages of data are provided for each. The first two pages present indicators measuring volume, revenues, expenses, and staffing; the third page provides profitability, liquidity, and capital ratios and a summary of CON activity; the fourth page contains a corporate organization chart.

The organization charts were produced by the Office of Health Care Access based upon the information filed by each hospital. These charts are especially relevant in that they begin to highlight the intense level of merger, affiliation, and integration activity that has occurred within the state.

Two years of historical data has been provided for each indicator. The detailed raw data tables used to generate the charts in this section will be made available to interested parties under the freedom of information statutes upon receipt of written request. These indicators further illustrate the complex issues that hospitals face today as they struggle to remain profitable in a highly competitive market.

SECTION I: FISCAL YEAR 1996 INDUSTRY YEAR IN REVIEW

Acute care general hospitals in Connecticut continued to operate in a quickly changing marketplace during fiscal year (FY) 1996. Enrollment in managed care has continued to increase in both the commercial and public sectors, with over 45% of the state's population now enrolled in Health Maintenance Organizations (HMO's). Hospitals have reacted to continued market pressures by forming vertical and horizontal affiliations, alliances, mergers, and in some cases their own managed care organizations. This section provides an "industry year in review," presents the hospital cost index for FY 1996, and summarizes Certificate of Need (CON) activity.

An industry review of 1992 through 1996 national data reported in *The 1997-98 Almanac of Hospital Financial and Operating Indicators* by the Center for Healthcare Industry Performance Studies (CHIPS) reported the following nationwide conclusions;

- Hospitals are improving their liquidity positions.

- Hospitals in managed care markets realized significant improvements in profitability during 1995 and 1996 and are now more profitable than hospitals that operate in low managed care markets. This improvement in profitability suggests that hospitals can successfully deal with the economic pressures of managed care rather than just survive them.

- Most hospitals are not adding significant amounts of new long-term debt because they have reduced capital expenditures

- More profitable hospitals achieved their profitability through a combination of cost containment and revenue management.

The general conclusion reached in the report is that the financial position of the U.S. hospital industry is very strong at the present time and has exhibited marginal improvement during the last year. Our review of Connecticut indicators concurs with this conclusion. Of course, not all hospitals have experienced an improvement in their financial position, and according to CHIPS, the Northeast region of the United States continues to report lower levels of profitability compared to the rest of the country.

Hospital Uncompensated Health Care

Uncompensated health care is comprised of *bad debts*, which represent uncollected receivable for services for which the hospital initially expected to receive payment, and *charity/free care* which represent services to the indigent provided at either a reduced rate or free of charge. Connecticut acute care hospitals are required to annually report the total annual expenses for charity care and bad debts to OHCA.

The level of hospital uncompensated care is dependent on a variety of factors including community demographics, the availability and level of health care programs offered to the indigent within the community, and the enforcement of hospital collection practices. Total uncompensated care reported by Connecticut acute care hospitals during FY 1996 was $250,934,161 consisting of $58,677,757 in free care and $192,256,404 in bad debts. The FY 1995 total uncompensated care level was $234 million.

Hospital Cost Index

Definition

Section 19a-677 of the C.G.S. requires that OHCA assess the relative cost of inpatient hospital services to payers at each Connecticut hospital. The intent of the statute is to hold hospitals accountable for comparable costs which are under the hospitals' control and to remove or adjust for those costs which are not comparable. The cost index is calculated by OHCA each summer as part of the annual hospital budget authorization process. It is based upon hospital reported financial and billing data for the most recently completed and audited fiscal year. The cost index presented within this report is for the FY 1998 budget year and is based on FY 1996 data.

The cost index was developed to enable a fairer comparison of all the hospitals by removing selected expenses which are not incurred by every hospital. These include medical education and physician-related expenses, labor-related expenses due to the geographic location of the hospital and expenses incurred due to treating a disproportionate share of indigent patients. The calculation also adjusts for "case mix." For example, a hospital which performs a large number of costly open heart surgery cases is likely to incur additional expenses outside its control due to its mix of patients in comparison to a hospital which has a high percentage of lower cost maternity cases.

The cost index calculation results in an "expected" adjusted cost per inpatient for each hospital which is based upon the state-wide average adjusted or "standard" cost per inpatient. A cost index greater than 1.0 means that the hospital's comparable costs for inpatient services are **higher** than the state-wide weighted average. An index less than 1.0 means that the hospital's comparable costs to payers for inpatient services are **lower** than the statewide average.

The hospital cost index calculated for FY 1998 budget purposes is found on the next page. Please note that the hospital name, the calculated index, and the ranking of that index in relation to the other hospitals in the state are included for both FY 1997 and FY 1998.

HOSPITAL COST INDEX FOR FY 1998
A MEASURE OF THE COST-EFFICIENCY OF HOSPITALS

Hospital	COST INDEX	RANK	PRIOR YEAR RANK	
New Britain General Hospital	0.81	1	1	
Hartford Hospital	0.83	2	3	
Saint Mary's Hospital	0.87	3	5	
Middlesex Hospital	0.90	4	4	
Saint Francis Hospital & Medical Center	0.90	5	2	
Bridgeport Hospital	0.90	6	7	
Windham Community Memorial Hospital	0.92	7	17	
The William W. Backus Hospital	0.94	8	6	
Bradley Memorial Hospital & Health Center	0.97	9	9	**MOST**
The Waterbury Hospital	0.97	10	8	**COST**
Bristol Hospital, Inc.	0.98	11	15	**EFFECTIVE**
The John Dempsey Hospital	0.99	12	12	**HOSPITALS**
Rockville General Hospital	1.02	13	10	
The Charlotte Hungerford Hospital	1.03	14	14	
The Stamford Hospital	1.03	15	28	
Saint Vincent's Medical Center	1.04	16	16	
The Hospital of Saint Raphael	1.05	17	22	
Yale-New Haven Hospital	1.05	18	23	
Day Kimball Hospital	1.06	19	20	
Johnson Memorial Hospital	1.06	20	13	
Saint Joseph Medical Center	1.06	21	27	
Lawrence & Memorial Hospital	1.07	22	18	**LEAST**
The Danbury Hospital	1.11	23	21	**COST**
Veterans Memorial Medical Center	1.13	24	26	**EFFECTIVE**
The Greenwich Hospital Association	1.13	25	30	**HOSPITALS**
Manchester Memorial Hospital	1.15	26	19	
Milford Hospital	1.16	27	11	
Sharon Hospital, Inc.	1.16	28	29	
Norwalk Hospital	1.18	29	25	
New Milford Hospital	1.36	30	31	
The Griffin Hospital	1.42	31	24	
Connecticut Children's Medical Center	1.51	32	32	

Hospital Cost Index based on FY 1996 actual data.

Note: Only 32 acute care hospitals are included in this year's ranking. Winsted Memorial Hospital is no longer operating and Mount Sinai Hospital is now part of Saint Francis Hospital & Medical Center.

Hospital Cost Index Findings

- The five lowest cost hospitals stayed constant from the previous year.
- Sixty-three percent of the hospitals had a cost index higher than the statewide weighted average or standard cost per inpatient.

Certificate of Need (CON) Activity

The Certificate of Need (CON) Program is a regulatory tool used to limit expansion of unnecessary technology and duplicative hospital and non-hospital health care services and programs. CON requests are reviewed according to statutory principles and guidelines in order to ensure that adequate accessibility to quality services, proper planning, and good management principles are maintained while duplication of technology and unneeded capacity are prevented or reduced.

Although the CON program addresses both hospital and non-hospital based health care services, the statistics and analysis presented in this report are only those associated with the Connecticut acute care general hospitals. During FY 1996, authorization was given for 28 CON projects related to acute care general hospitals. These projects represented nearly $85 million in capital expenditures approved for the acute care hospitals.

The CON program affects hospital budgets because net revenue limits may be adjusted per statute to reflect changes in hospital operating expenses due to the acquisition of new technology or the implementation of additional programs and services under a hospital's CON authorization. Approximately $120 million in hospital CON expenses were recognized by OHCA in the acute care hospitals' authorized budgets for FY 1996.

FY 1996 Acute Care General Hospital CON-Approved Capital Expenditures

The number of authorized CON applications in FY 1996 decreased when compared to FY 1995. Specifically, OHCA authorized 28 acute care hospital-based CON applications at a capital cost of $84,800,000 as compared to 38 CON applications at a capital cost of $280,010,000 in the previous fiscal year. The trends reported last year related to the category of applications continued, as hospitals continued to respond competitively to the changing health care environment.

For FY 1996, renovations and development of new or expanded programs and services continued to represent the majority of new applications approved. The modifications authorized were primarily for time extensions or increased access to recently approved services; minimal capital costs were incurred as a result of these modifications. For the third year in a row, the number of applications for new equipment decreased. The number of mergers and acquisitions remained fairly constant. During FY 1996, CON authorizations resulted in a statewide reduction of 147 licensed acute care hospital beds. Further details of the FY 1996 approved CON capital expenditures are highlighted in the table on the following page.

CON AUTHORIZATIONS FROM FY 94 to FY 96
(000's omitted)

CONs Approved (by Category)	Approved FY96 Number	Cost	Approved FY95 Number	Cost	Approved FY94 Number	Cost
Renovations/New Construction	6	$54,398	7	$238,190	2	$10,802
Imaging/Major Medical Equipment	3	4,316	9	15,242	12	25,618
Other Equipment	3	24,688	5	29,008	2	20,110
Mergers & Acquisitions	3	513	4	3,210	2	22,413
New/Expanded Service	6	285	6	246	7	14,978
Modifications	7	609	7	(5,886)	2	19,365
Grand Total	**28**	**$84,809**	**38**	**$280,010**	**27**	**$113,286**

Significant CON Projects Authorized in FY 1996

Renovations/New Construction

Renovations and new construction continued to represent the major component of the total capital expenditures for FY 1996. Six projects resulted in $54,398,000 in approved facility renovations and a total reduction of 108 licensed hospital beds.

- Hospital of Saint Raphael's renovation of the existing emergency department and construction of an ambulatory services building was approved at a cost of $25,000,000.
- Waterbury Hospital was authorized to renovate and relocate the inpatient psychiatric unit and reduced the number of licensed beds by 48 at a cost of $3,297,749.
- Saint Francis Hospital and Medical Center was authorized to construct the Burgdorf/Fleet Health Center at a cost of $6,600,000.
- Stamford Health System was authorized to construct a replacement power plant on the campus of The Stamford Hospital at a cost of $5,966,500.
- Hartford Hospital was authorized to replace its Labor and Delivery Unit and reduce the number of licensed beds by 60 at a cost of $7,994,927.

Significant CON Projects, continued

- Saint Francis Hospital and Medical Center and The One Thousand Corporation were authorized to undertake building renovations and acquire equipment associated with the establishment of The Center for Health Enhancement at a cost of $5,540,204.

Imaging/Major Medical Equipment

In FY 1996 three CON authorizations were granted for replacement imaging and major medical equipment. The authorizations included the replacement of two CT scanners, an angiography/special procedures suite and angiographic/cardiac catheterization equipment. The combined cost of the three replacement applications was $4,315,640.

Other Equipment

Other equipment purchases included the acquisition of a computer system, equipment for a building project and a fire alarm system upgrade. The combined cost of all other equipment purchases was $24,688,000. The significant acquisitions are listed below:

- New Britain General Hospital was authorized to upgrade and expand its clinical information system at a total capital expenditure of $10,131,287.

- Greenwich Hospital was authorized to acquire new and replacement equipment and furnishings at a total capital expenditure of $13,036,986.

Mergers and Acquisitions

- There was no capital cost associated with the corporate affiliation of Yale-New Haven Health Services Corporation (the parent corporation of Yale-New Haven Hospital) and Southern Connecticut Health System, Inc. (the parent corporation of Bridgeport Hospital).

- There was no capital cost associated with the corporate merger of the BMH Corporation (the parent corporation of Bradley Memorial Hospital) and CenConn Health Corporation (the parent corporation of New Britain General Hospital). The corporate merger also resulted in a reduction of 14 licensed beds at Bradley Memorial Hospital and 25 licensed beds at New Britain General Hospital.

- CONNCare, Inc. (a corporate affiliate of The William Backus Hospital) acquired the Colchester Immediate Care Medical Center at a cost of $512,741.

Significant CON Projects, continued

Programs and Services

The new programs and services authorized by OHCA continued to be primarily behavioral health services or school based clinics. Significant programs and services are listed below:

- Bridgeport Hospital received authorization to establish psychiatric partial hospital programs for children and geriatric patients in Bridgeport at a total cost of $61,972.

- Griffin Hospital received authorization to establish an adolescent partial hospital at a total capital expenditure of $69,675.

- Charlotte Hungerford Hospital received authorization to establish an outpatient psychiatric clinic in Winsted. There were no capital costs associated with this authorization.

- Yale-New Haven Hospital received authorization to establish a school based clinic at Vincent Mauro Elementary School. There were no capital costs associated with this approval.

- Griffin Hospital received authorization to establish a school based clinic at Ansonia High School at a capital cost of $152,956.

Modifications of Previously Authorized CONs

Seven requests for modification of previously issued CON's were received in FY1996. Unlike those received in previous years, the requests were minor in nature and primarily dealt with enhancing access to existing MRI services or extending the date by which programs became operational. A brief summary of requests follows:

- Bristol Hospital, Johnson Memorial Hospital and Lawrence and Memorial Hospital received authorization to increase hours of operation or change location of MRI services.

- Bridgeport Hospital, New Britain General Hospital and Backus Hospitals each received a time extension of the date by which the acquisition of equipment or completion of renovations must occur.

CON Operating Expenses Recognized in FY 1996 Hospital Budgets

Authorized CON projects often have operating cost implications for hospital budgets. These costs are recognized in the fiscal year that the project is implemented through the annual hospital budget review process as an adjustment to the net revenue limits. Recognition of CON related operating costs generally occurs a year or two after the CON authorization is granted. The FY 1996 hospital budget authorizations contained adjustments to the net revenue limits to reflect $120,422,329 in total operating expenses related to the implementation of 24 new and/or modified CON projects.[1]

It should be noted that mergers and acquisitions represented $82 million in operating expenses[2] and comprised 68% of the adjustment. The second most significant portion of the adjustment was facility renovation projects which accounted for $28 million in operating expenses and 24% of the adjustment.[3]

[1] Source: FY 1996 Budget Schedule CON

[2] Merger-related operating expenses are not incremental over prior year operating expenses.

[3] Facility renovation project operating expenses are incremental over prior year operating expenses.