



American Hospital  
Association

# **Report on the Capital Crisis: Impact on Hospitals**

January 2009

# Background

- Hospitals primarily rely on **borrowed money**, **philanthropy** and **reserves** to provide the **capital** required to update facilities and purchase life-saving technologies to meet community needs.\*
  - **Borrowed money** (debt) primarily comes from bond offerings and loans from banks and other financial institutions.
  - **Philanthropy** refers to charitable donations received by hospitals from organizations or individuals.
  - **Reserves** refer to the savings hospitals build up over time by having a positive net income and a return on invested money.
  - **Capital** refers to the money used to fund investments in facilities and equipment.
- This report provides the results of the AHA Survey, “The Capital Crisis: Survey of Impact on Hospitals.”
  - Survey was sent to all non-federal hospital CEOs in late December 2008 via fax and e-mail.
  - Data was collected through January 6, 2009.
  - A total of 639 responses were received.
  - Sample is representative of the non-federal hospital field.

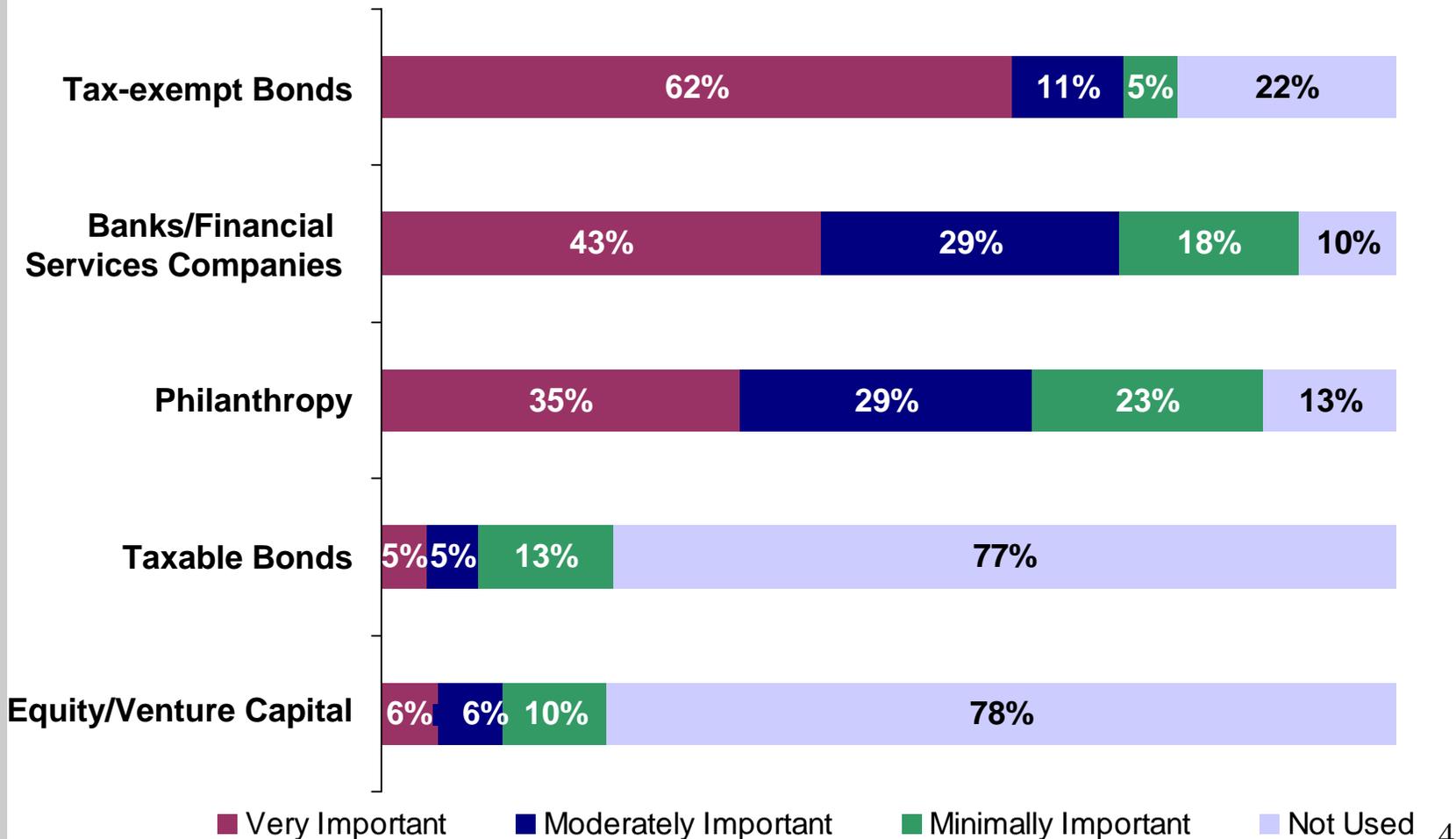
\*Equity (selling an ownership share) is another less frequently used source of capital.

# Survey Highlights

- Hospitals' ability to borrow is severely constrained.
  - 9 out of 10 hospitals are finding it harder or even impossible to access to tax-exempt bonds – a critical source of borrowing for the majority of hospitals.
  - Other important sources of debt such as banks and other financial institutions are becoming more difficult to access as well.
- 9 out of 10 hospitals report that attracting charitable donations has become harder.
- The broader effects of the economic slowdown play into hospital capital decisions as uncertainty mounts, operating performance declines and the value of reserves falls due to stock market and other investment woes.
- Nearly half of hospitals have put capital projects on hold and many have even stopped projects already in process. Of those hospitals putting projects on hold:
  - 82% have put facilities projects on hold.
  - 65% have put clinical technology projects on hold.
  - 62% have put information technology projects on hold.
- Postponing capital projects affects a hospital's ability to meet community needs as well as move toward larger U.S. health care system goals such<sub>3</sub> as improved quality, efficiency and coordination of care.

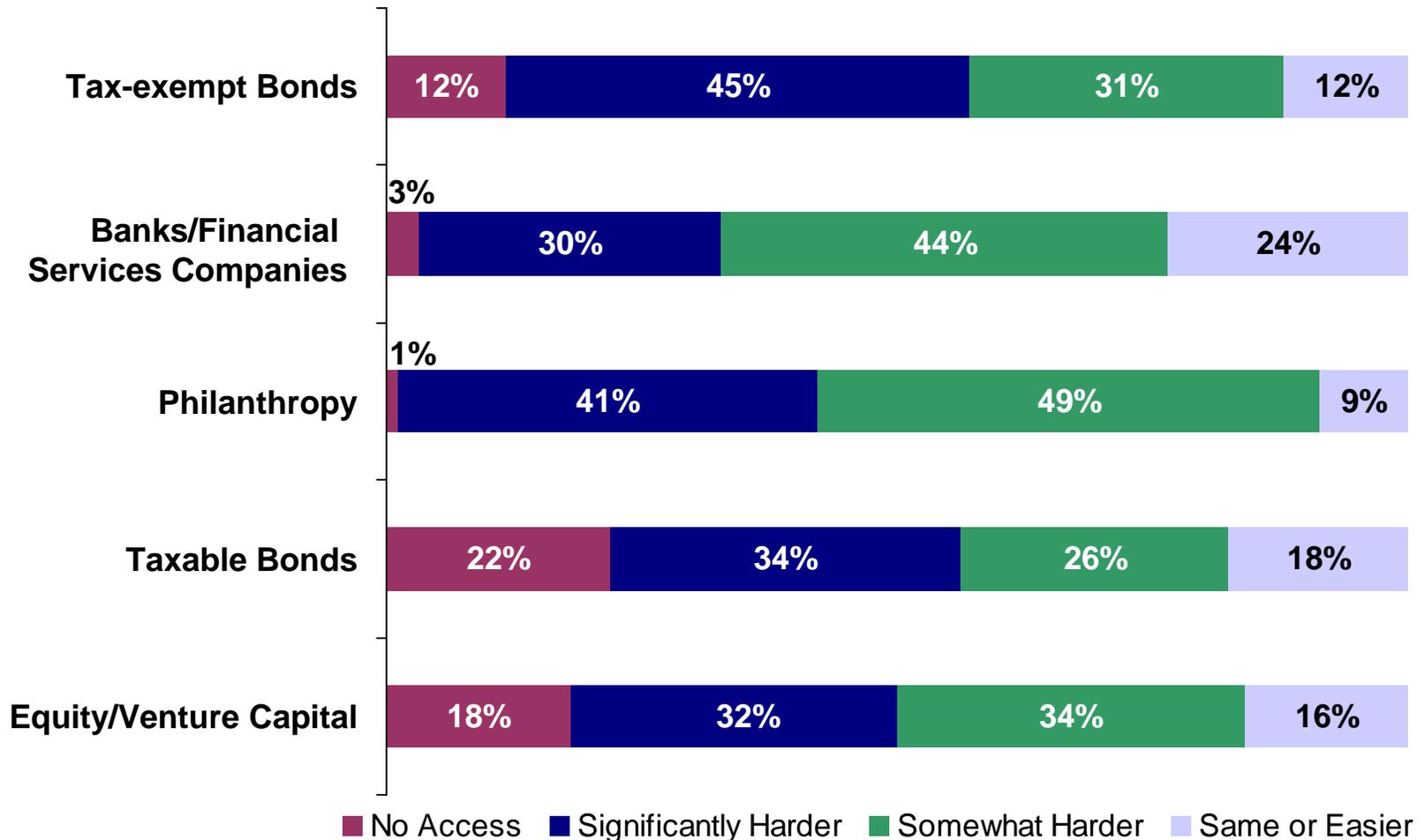
# Tax-exempt bonds are a critical source of financing for hospitals.

## Percent of Hospitals by Importance of Various External Sources of Capital to Hospitals



# Many hospitals find it significantly more difficult or even impossible to access tax-exempt bonds and other sources of capital.

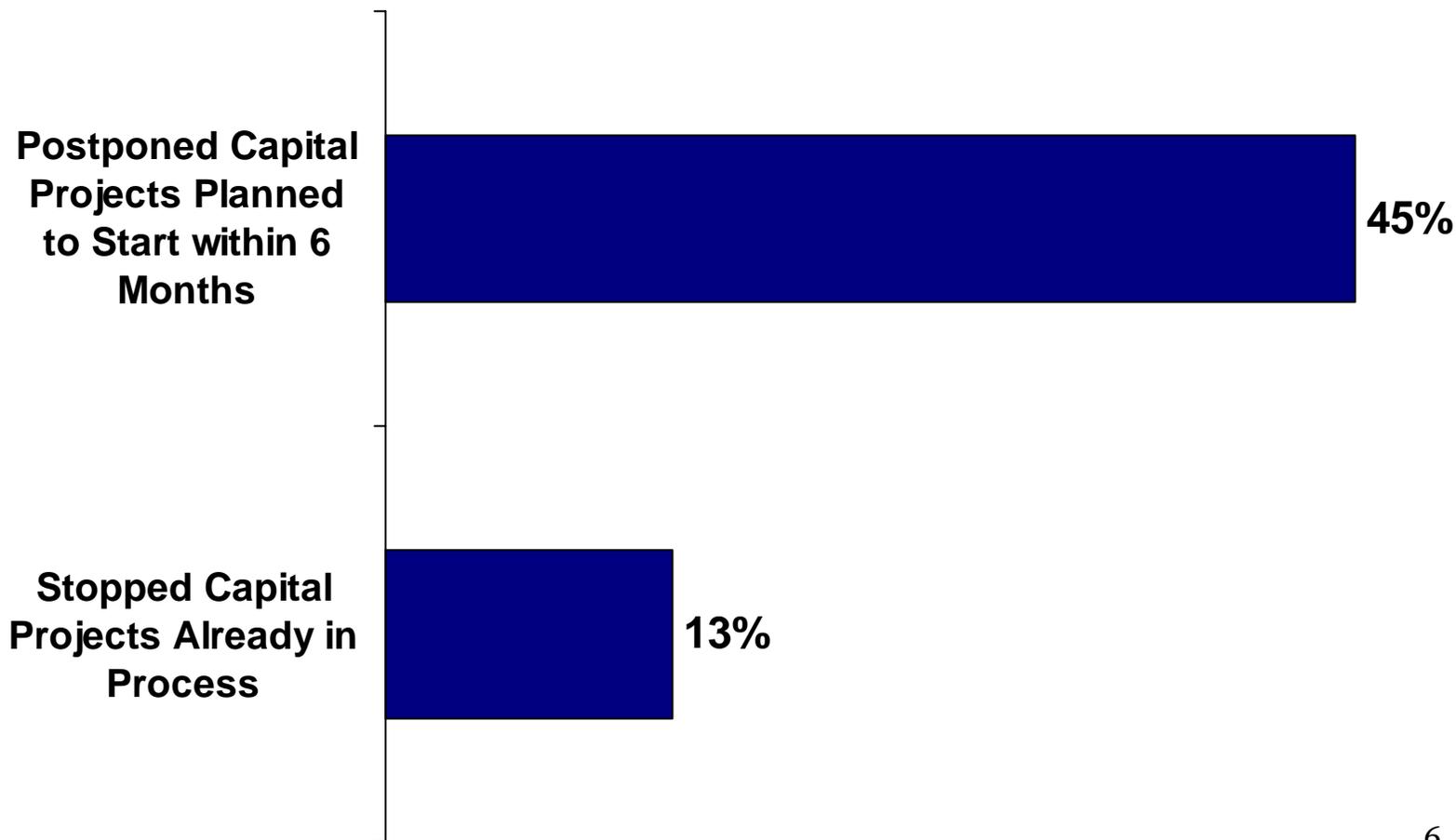
## Percent of Hospitals\* Finding Access to Various Types of Capital More Difficult



\*Excludes those hospitals indicating that they don't use that source of capital

# Nearly half of hospitals surveyed are postponing capital projects and some even stopped those already in progress.

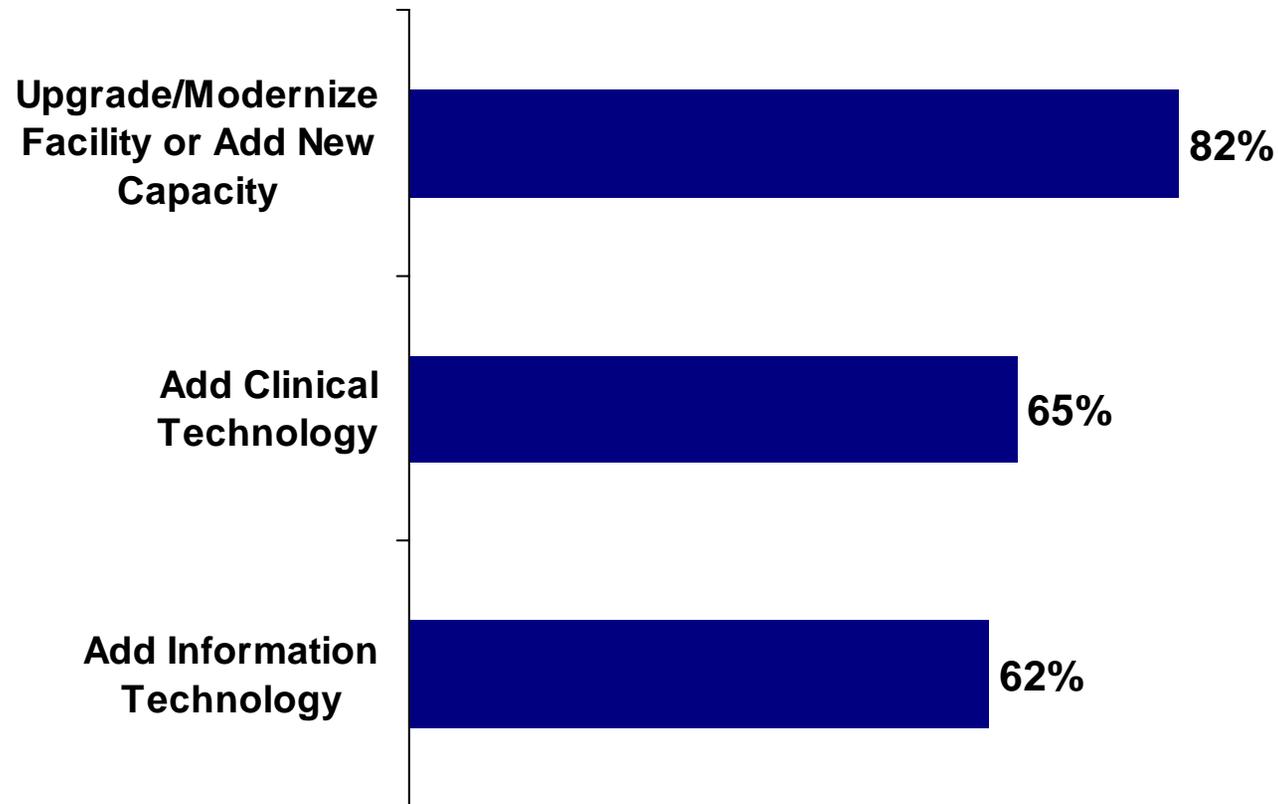
## Percent of Hospitals Postponing Capital Projects because of Economic Situation



# The highest percentage of hospitals are postponing facilities projects, with clinical and information technology projects close behind.

## Percent of Hospitals by Type of Project Put on Hold

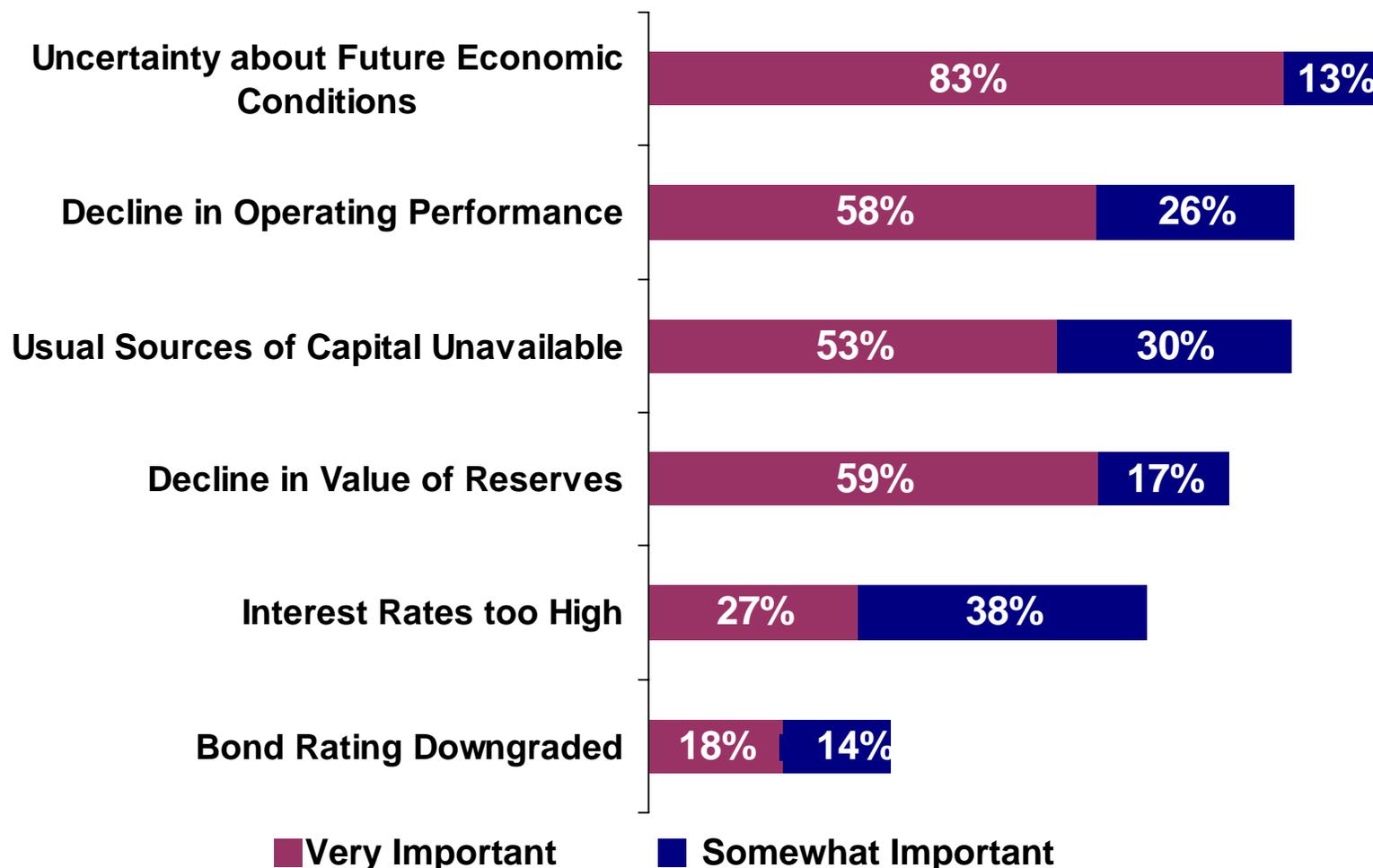
*[Includes only those hospitals that indicated they had put projects on hold]*



# A number of factors related to the current economic crisis play a role in the decision to postpone capital projects.

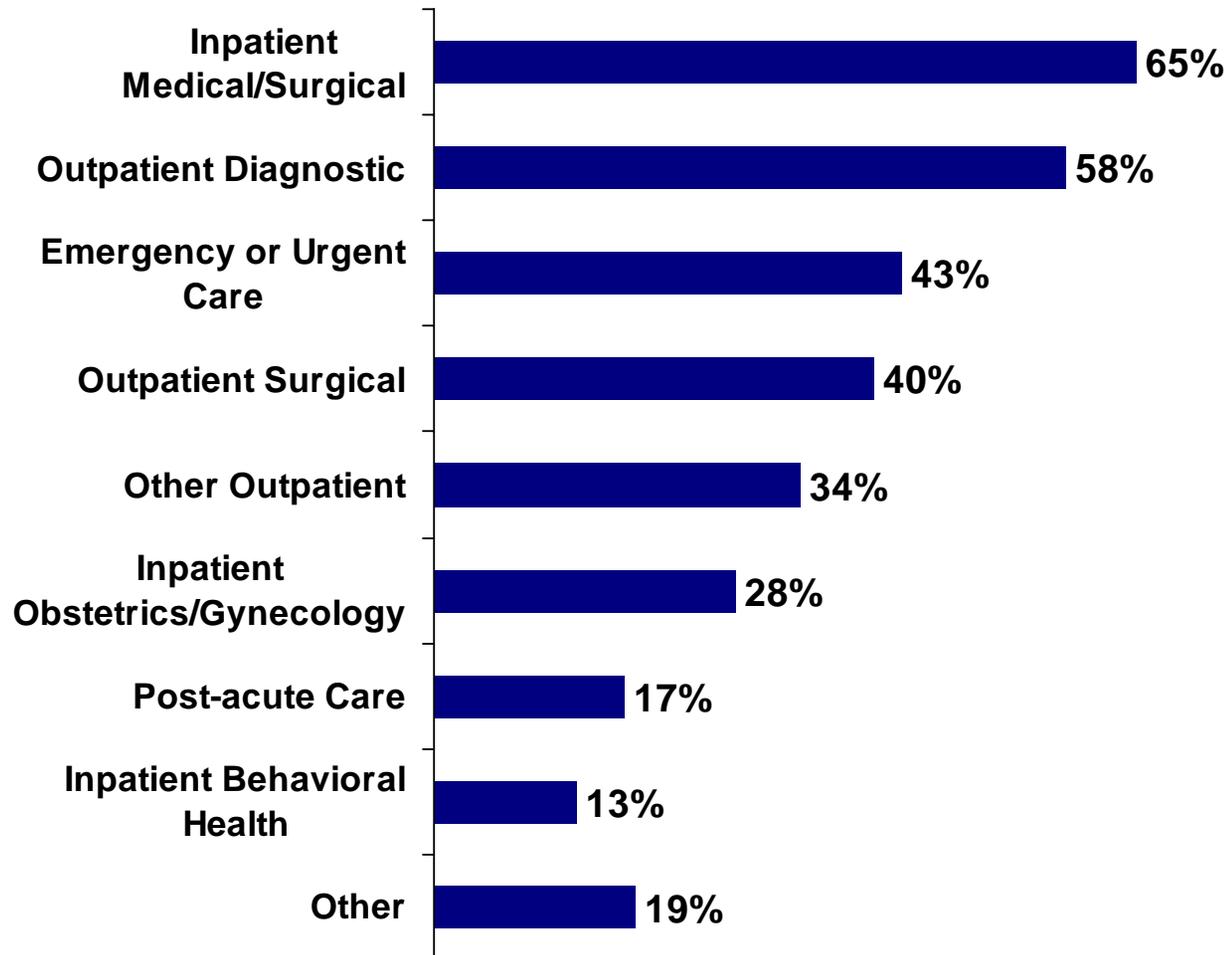
## Percent of Hospitals Indicating Key Factors as “Very” or “Somewhat Important” in Decision to Put Projects on Hold

*[Includes only hospitals that indicated they had put projects on hold]*



# Postponed facilities projects would respond to a variety of community health service needs.

## Percent of Hospitals Citing Services Affected by Facilities Projects Put on Hold *[Includes only those hospitals that indicated they had put facilities projects on hold]*



# Postponing facilities projects affects a hospital's ability to meet community needs and meet larger U.S. health care system goals such as improved quality and efficiency.

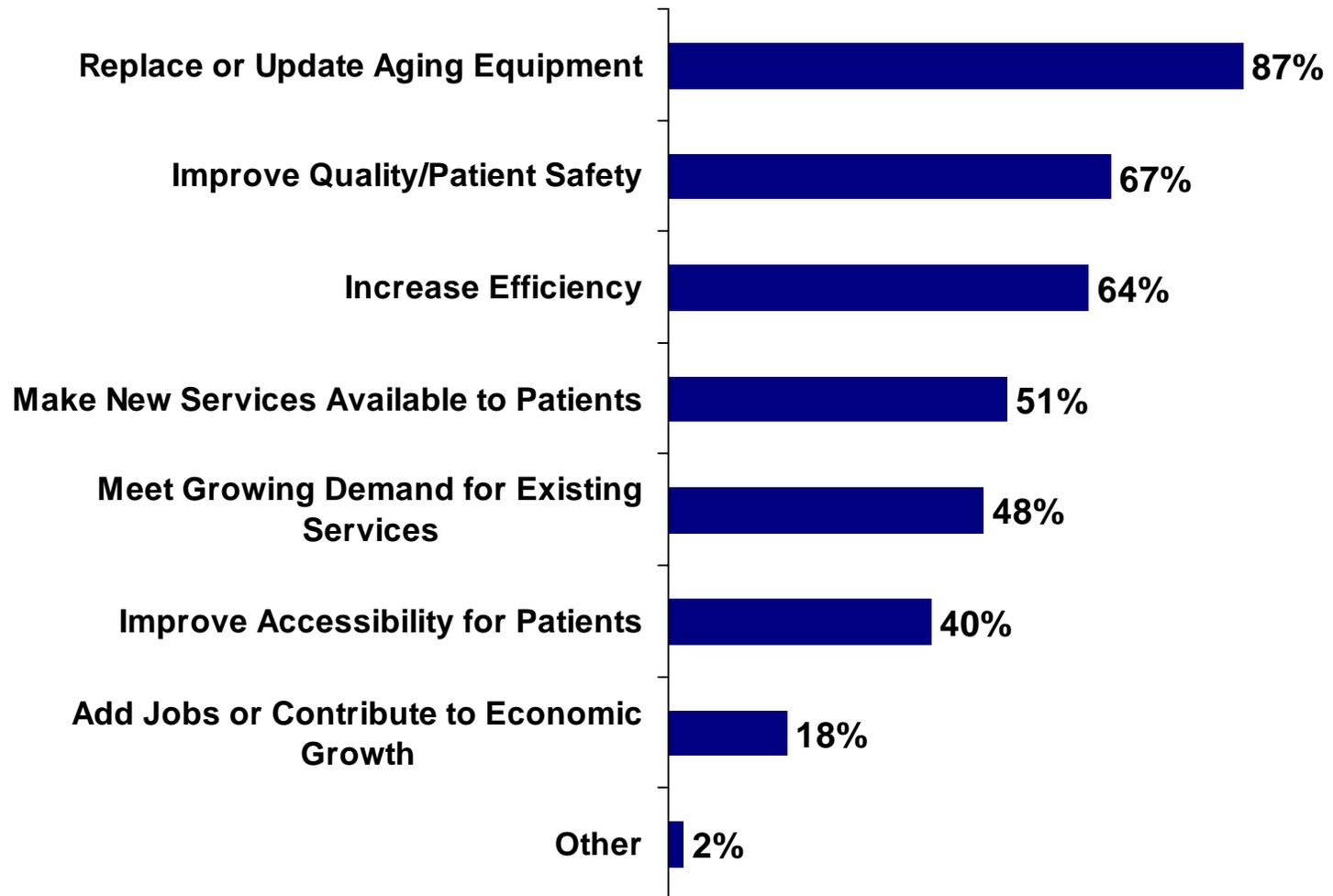
## Percent of Hospitals Citing Anticipated Benefits of Facilities

**Projects Put on Hold** *[Includes only those hospitals that indicated they had put facilities projects on hold]*



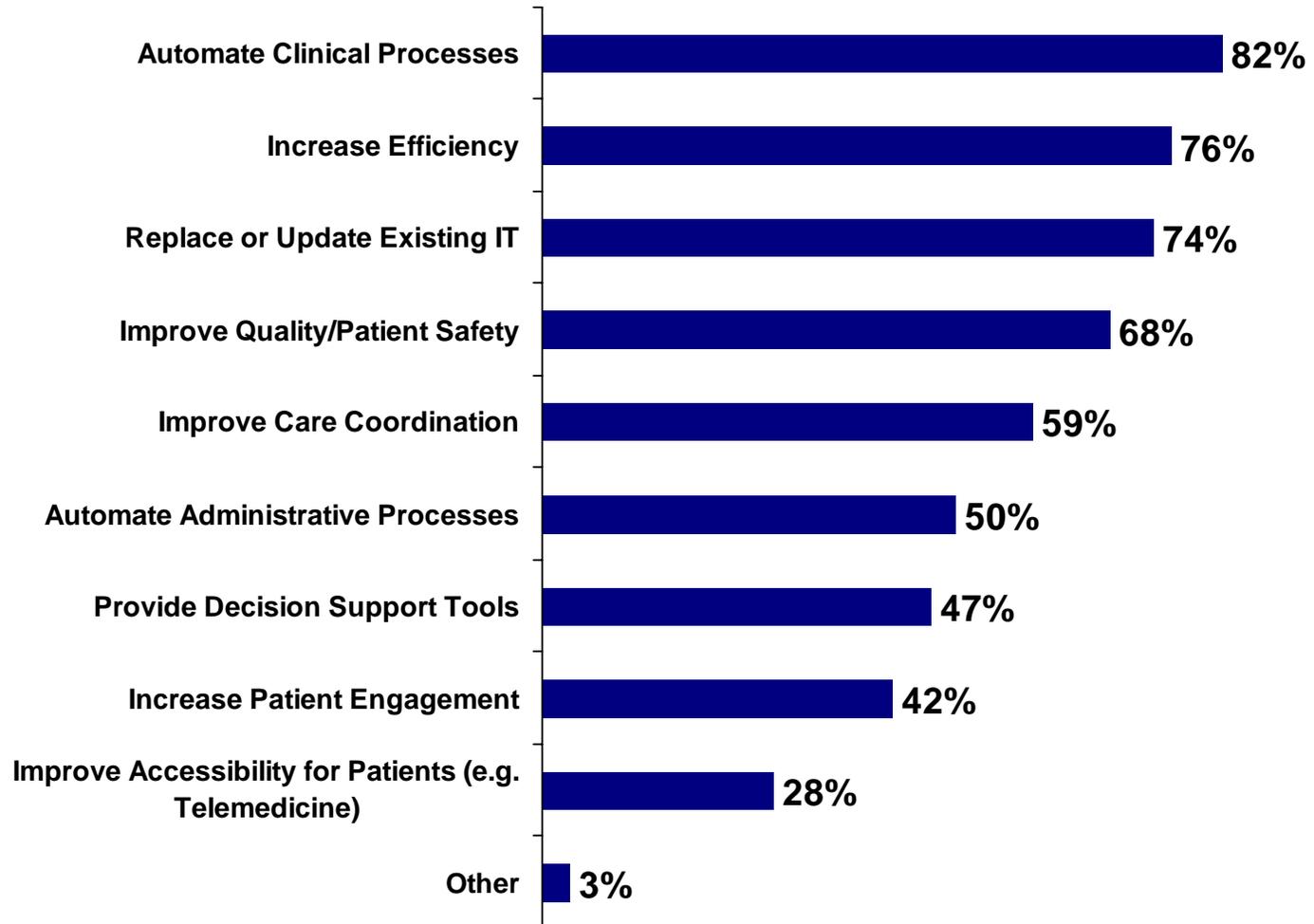
# Postponed clinical technology purchases were expected to ensure equipment is up-to-date as well as improve quality and efficiency for the majority of hospitals putting such projects on hold.

## Percent of Hospitals Citing Anticipated Benefits of Clinical Technology Purchases Put on Hold *[Includes only those hospitals that indicated they had put clinical technology purchases on hold]*



# The expected benefits of delayed IT projects included improved quality, efficiency and care coordination for the majority of hospitals putting such projects on hold.

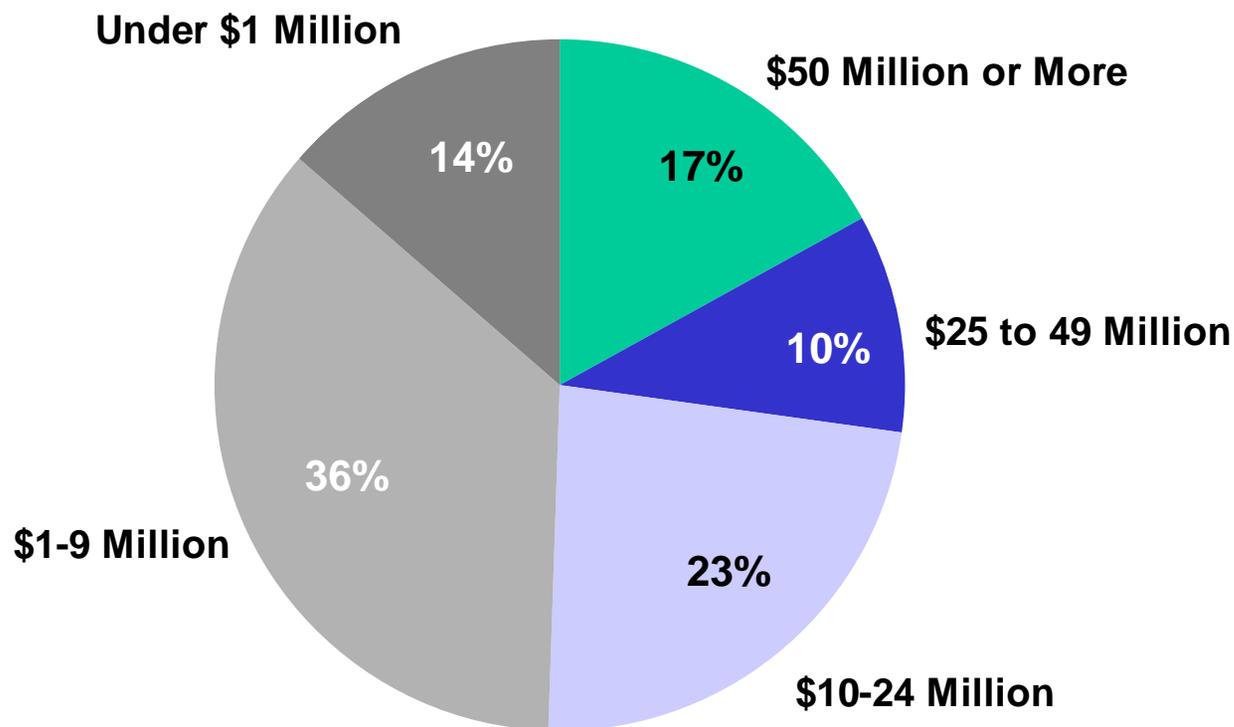
## Percent of Hospitals Citing Anticipated Benefits of Information Technology Projects Put on Hold *[Includes only those hospitals that indicated they had put information technology purchases on hold]*



# Half of hospitals with projects on hold would need at least \$10 million to complete them.

## Approximate Dollar Amount of Capital that Would be Required to Complete Projects that Have Been Postponed

*[Percent of hospitals by amount of capital required\*]*



\*Includes only hospitals that indicated they had put projects on hold. Dollar amounts reflect total project costs not just the costs in the current year.

# Projects put on hold represent the majority of the capital budget for these hospitals.

**Percent of Hospitals by Portion of Capital Budget Put On Hold**  
*[Includes only those hospitals that indicated they had put capital projects on hold]*

