

AHP in the News
Hospitals Face Financial Squeeze
By Jacqueline Palank
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More than half of U.S. hospitals aren't seeing enough patients to provide sufficient revenue to fund operations and are "teetering on the brink of insolvency" or already are insolvent, according to a study.

Restructuring firm Alvarez & Marsal said more than 2,000 of the nearly 3,900 acute-care hospitals the firm studied don't make a profit treating patients. Nearly 750 hospitals that do turn a profit still don't have enough to reinvest in improvements or other essential expenditures, the firm's study found.

While many hospitals continue to operate despite insolvency, an increasing number are filing for bankruptcy as part of a trend experts said is sure to continue.

"We're seeing hospital insolvencies and hospital bankruptcies -- it's the heyday right now," said George D. Pillari, a managing director in Alvarez & Marsal's health-care group who worked on the study. "We're going to see continued insolvencies; we're going to see more bankruptcies this year than last year."

There is a "top tier" of about 500 to 1,000 hospitals that are consistently profitable, have excellent credit ratings and claim a substantial share of the market, Mr. Pillari said, and "then there's everybody else."

The problems facing the industry are widespread, but many hospitals have too many beds and too few patients, said Gerald H. Gline, a bankruptcy attorney at Cole, Schotz, Meisel, Forman & Leonard PA who has worked on hospital bankruptcy cases in New Jersey.

"Hospitals are also competing with same-day surgery centers and outpatient clinics and all sorts of ways to deliver health care," Mr. Gline said. "There are just too many hospitals."

While occupancy levels decline, the cost of care continues to rise. The rates of reimbursement from Medicare and Medicaid are down, Mr. Gline said, and there is an increasing number of uninsured patients.

Alvarez & Marsal, which looked at 3,861 of the country's approximately 4,900 short-term, acute-care hospitals, found that 2,044 don't earn a profit on patient care. An additional 744 hospitals earn less than what they need to fund day-to-day operations as well as the most basic capital expenditures, like making facility repairs. The study, released last week, also found that hospitals' capital expenses are underfunded in the range of \$10 billion to \$20 billion because they are using these dollars to fund their operations.

"You don't even have enough money to then fix broken sinks or broken elevators," Mr. Pillari said.

Nor are hospitals immune to the credit crunch that has forced companies in a host of industries to take on costlier loans, if they can get financing at all. Mr. Pillari said lenders that last year were willing to finance a hospital at an amount that was five or six times its cash flow are now making loans only in amounts that are double or triple cash flow.

"What had always been a relatively comfortable financial environment in health care has become a lot more treacherous," he said.

Hospitals then turn to other, often unsteady, sources of revenue, such as the cash that a gift shop or parking lot brings in, as well as philanthropy or aid from local and state governments.

But these "Band-Aid fixes" haven't been enough to cover what is actually a gaping wound, Mr. Pillari said. "This whole industry is just kind of sliding slowly into insolvency," he said.

Before the industry can bottom out -- which Mr. Pillari said may not be for another few years -- more hospitals will have to seek drastic fixes such as mergers or bankruptcy filings to cure their balance sheets.

"Hospitals can make it. They can get by even if they're insolvent," he said. "But there's not much of a future unless the capital structure is fixed."