1990-11-16

Managing for change: November 16, 1990 v. 1, no. 6

BOSTON UNIVERSITY MEDICAL CENTER

The University Hospital

Managing for CHANGE

A Publication for the Managers of The University Hospital

November 16, 1990
Volume 1, Number 6

How will the federal budget package affect UH?

After much delay, negotiations over the federal budget deficit ended with what looks to be a five-year, $16-billion reduction in hospital payments. The implications of Washington's decisions on the health-care industry and on UH in particular are not yet fully known.

All in all, though, it appears that urban teaching hospitals such as UH fared better than other hospitals in prevailing on key issues. Teaching hospitals were able to maintain the federal government's support of direct and indirect medical education costs, and, beginning January 1, Medicare payments will come closer to representing true labor costs.

"We hope that these factors will tend to balance our losses resulting from a temporary freeze in payments through the end of the year; upcoming deductions from 'market basket' adjustments to DRG rates; and decreased outpatient payments," said UH President J. Scott Abercrombie Jr., M.D. "The outcome of the budget reconciliation will not bring us additional revenues, but neither will it be as negative as some anticipated."

In general, however, representatives of the hospital industry are dissatisfied with the federal package. In an October 29 ***AHA News*** editorial, Carol McCarthy, outgoing president of the American Hospital Association (AHA), decried the package as "budget-driven health policy at its worst." Her main point of objection was that the budget harms the ability of elderly, disabled and indigent Americans to receive access to high-quality health care. While acknowledging the severity of the nation's fiscal crisis, McCarthy also said that, "Americans should rise to protest a 'solution' that singles out health care for a disproportionately large contribution to deficit reduction." She finally noted that the government's track record of reneging on funding commitments makes it hard to believe that it is capable of committing to any five-year plan.

BBJ article highlights UH

The recent 10th anniversary issue of the ***Boston Business Journal*** prominently featured UH as a prototype health-care institution. This special edition highlighted one organization in each of six major industries—health care (UH), high-tech (Wang), banking (Bank of New England), real estate (Beacon Companies), financial services (Fidelity Investments) and government (Citizens for Limited Taxation). "That's pretty good company," said Dr. Abercrombie. "I'm delighted that a respected member of the local media has noticed the unique and creative things we're doing to answer challenges and shape ourselves for the future."

Strategic Budget management plans approved by Trustees

The Board of Trustees' Strategic Planning Committee recently approved an overall management plan that will guide the implementation of the Hospital's strategic goals and objectives, approved earlier this year.

Much of the activity over the coming 12 to 18 months will be devoted to working with individual clinical units to develop specific plans to meet targeted utilization objectives. In addition, larger-scale business planning is being pursued along several multidisciplinary lines, with an emphasis on the development of expanded ambulatory programs wherever appropriate. Along with examining program commitments, the Hospital will assure that necessary facilities are available to support the services offered or proposed.

Around the same time that the Trustees' Strategic Planning Committee was reviewing the management plan, administration was putting the final touches on the FY91 budget. An administrative ***Blue Top*** released last week by Dr. Abercrombie outlined the Hospital's budget goals for FY91. "Our budget for FY91 will reflect a commitment to earning enough from patient operations so that we can continue to invest in the people and programs that define the University Hospital," said Dr. Abercrombie.

Financial ratios approved by Board Finance Committee

The Finance Committee of the Board of Trustees has approved the use of certain financial ratios to be the fiscal guidepost in steering the Hospital by its strategic plan, according to Michael Blaszyk, executive vice president for Corporate Services. These ratios will help the Hospital project how today's financial performance might affect UH's ability to carry out its short- and long-term strategic objectives.

"In the past, if we weren't meeting our year-to-date budget, that immediately told us that expansion capital probably couldn't be budgeted for next year," said Blaszyk. "These ratios allow us to notice financial target variances early, look into the cause, devise a solution, and, most importantly, proceed in supporting our strategic objectives."

The selected ratios are intended to support a sound capital structure from which to distribute funding for capital expansion in concert with the Hospital's mission and strategic objectives. They also will make University Hospital bonds more attractive to investors by ensuring financial stability.

While the use of financial ratios by management is generally new to hospital finance, reviewers of hospital credit have used them extensively to evaluate credit and project a hospital's long-term performance outlook. In fact, these same ratios were used by Standard & Poor's and the Moody's rating services to determine UH's ability to support the refinancing of its Atrium Pavilion:

- **Operating Margin** (operating revenue minus operating expenses, divided by operating revenue) is a short-term profitability ratio that measures the operating revenue that is available for reinvestment. For hospitals that are highly leveraged, however, a positive margin often must be used to reduce long-term debt.
- **Growth Rate in Equity** (change in fund balance divided by fund balance) is an indicator for long-term survival and growth potential. This ratio tracks the Hospital's growth in new equity, and is useful for seeing if the Hospital's capital investments are yielding returns and then projecting whether such returns will continue as anticipated.
- **Current Ratio** (current assets divided by current liabilities) is a widely used ratio to measure short-term liquidity. High values to this ratio generally imply that the Hospital can pay its short-term obligations.
- **Debt Service Coverage** (cash flow plus interest expense, divided by principal payment plus interest expense) is a ratio that measures a hospital's short-term ability to meet its long-term debt based on its cash-flow position.

***Managing for CHANGE** is published by the Office of Publication Services of Boston University Medical Center, Owen J. McNamara, director, Michael R. Paskavitz, editor, and Catherine M. LeBlanc, designer. This publication is supported by a contribution from Deloitte & Touche.*