

Big dividends

Annual survey of hospital systems shows a strong financial comeback thanks in large part to resurgent investment portfolios

10 LARGEST HEALTHCARE SYSTEMS, BY REVENUE

Ranked by net patient revenue, 2009 (\$ in millions)

	2009	2008
U.S. Veterans Affairs Department	\$46,544.8	\$40,686.5
HCA	30,052.0	28,374.0
Ascension Health	13,627.9	12,654.2
Community Health Systems	12,107.6	10,919.1
Catholic Healthcare West	8,719.4	8,101.9
Tenet Healthcare Corp.	8,672.0	8,348.0
New York-Presbyterian Healthcare System	8,532.9	8,458.3
Catholic Health Initiatives	8,257.5	7,515.9
Sutter Health	7,410.0	6,874.0
Mayo Clinic	6,473.7	6,143.5

All figures rounded.

Source: Modern Healthcare's 2010 Hospital Systems Survey

10 LARGEST HEALTHCARE SYSTEMS, BY HOSPITAL COUNT

Ranked by total acute-care hospitals, 2009

	2009	2008
HCA	163	166
U.S. Veterans Affairs Department	153	153
Community Health Systems	122	119
Catholic Health Initiatives	78	77
Ascension Health	67	67
Health Management Associates	55	56
Tenet Healthcare Corp.	49	53
LifePoint Hospitals	47	48
Catholic Healthcare West	41	41
Adventist Health System	37	37

Source: Modern Healthcare's 2010 Hospital Systems Survey

Like caregivers watching a patient's heartbeat return on an electrocardiogram, many executives at healthcare systems could breathe easier in late 2009 after seeing their financial vital statistics rise back into positive territory.

The 207 organizations that took part in *Modern Healthcare's* 34th annual Hospital Systems Survey reported a collective net income of \$11.9 billion in fiscal 2009—a significant swing from the prior year, when the same systems posted a net loss of \$5 billion, driven by heavy losses in the securities markets.

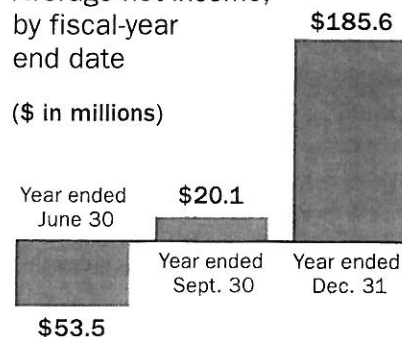
Good news for chief financial officers abounded in the latest survey of hospital system finance: net revenue was up about 8%, net operating income was up 43%, net assets grew 5%, and bad debt grew slower than expected, rising 8% on the year.

Although the ongoing recession was—and continues to be—a major management challenge, several observers say the painful market correction also had positive effects for their finances and their executives.

See **SURVEY** on p. 22

WHAT A DIFFERENCE A FEW MONTHS MAKE

The more quarters of 2008 that were included in systems' fiscal 2009, the worse they tended to perform in net income for the year. Average net income, by fiscal-year end date



Source: Modern Healthcare reporting

SYSTEMS' OPERATIONS, BY TYPE

SURVEY from p. 18

Type of facility	Number of systems		Percentage change
	2009	2008	
Acute-care hospitals	210	203	3.4%
Home-care facilities	161	156	3.2
Skilled-nursing facilities ¹	143	143	—
Rehabilitation facilities ¹	98	94	4.3
Physician organizations	84	82	2.4
Assisted-living facilities	52	53	(1.9)
Free-standing psychiatric hospitals	46	50	(8.0)
Long-term acute-care facilities ¹	44	91	(51.6)
Continuing-care retirement communities	23	22	4.5

2009 data based on responses from 210 systems. 2008 data based on 203 system respondents to the 2009 survey.

¹ Include counts for both free-standing and hospital-based facilities.

Source: Modern Healthcare's 2010 Hospital Systems Survey

NET REVENUE CLIMBS, NET INCOME SOARS

Changes in aggregate revenue, income for 2008-09
(\$ in billions)

	Net patient revenue	Net revenue	Net operating income	Net income
2009	\$382.2	\$422.1	\$13.7	\$11.9
2008	\$354.5	\$390.2	\$9.6	(\$5.0)
Percentage change	7.8%	8.2%	43.2%	336.7%

Based on 207 responses; the U.S. Veterans Affairs Department, Methodist Healthcare System and Methodist Hospital System were excluded from financial calculations.

Source: Modern Healthcare's 2010 Hospital Systems Survey

10 LARGEST FOR-PROFIT HEALTHCARE SYSTEMS

Ranked by staffed acute-care beds, 2009

	Beds		Hospitals	
	2009	2008	2009	2008
HCA	41,208	40,742	163	166
Community Health Systems	18,140	17,411	122	119
Tenet Healthcare Corp.	13,601	14,532	49	53
Health Management Associates	8,418	8,019	55	56
LifePoint Hospitals	5,552	5,686	47	48
Universal Health Services	5,484	6,101	25	25
Vanguard Health Systems	4,135	4,181	15	15
Iasis Healthcare	2,853	2,644	15	15
Prime Healthcare Services	2,311	2,311	13	13
Methodist Healthcare System	1,850	1,763	7	6

Source: Modern Healthcare's 2010 Hospital Systems Survey

"I think it strengthened our management team, as to how to focus, and what we needed to focus on, from an operational perspective, and taking a look at things from a system perspective, and focusing on the patients," says David Eager, senior vice president and CFO of 12-hospital Aurora Health Care, based in Milwaukee.

Aurora posted 14% growth in net patient revenue in 2009, exceeding the healthy average rate of growth for all systems in the survey. Eager says the system's executives used the credit crisis to force themselves to find ways to maximize efficiency in the supply chain, revenue cycle and integrated care delivery, while building business in service lines like cancer treatment and getting certain physicians to admit more patients.

All of those efforts led to a 63% increase in net operating income between 2008 and 2009. "We saw the decline in the economy as an opportunity. Some of our competitors saw the recession as a reason to hunker down," Eager says.

However, the overarching trends seen in the survey of health systems can mask heavy volatility seen in individual systems. Seven individual systems experienced stunning reversals of more than \$1 billion each in net income during their fiscal years. Six of the systems saw their net incomes move more than \$1 billion in a positive direction, while 67-hospital Ascension Health saw its profits drop by \$1.07 billion.

Ascension, a St. Louis-based Roman Catholic system, was among the unlucky group of organizations whose July-to-June fiscal year captured the worst of the stock market free-fall in late 2008 and early 2009, dragging down its balance sheet far worse than would have been the case from operations alone.

The data in the survey clearly show that systems whose fiscal years included the stock market turnaround in the second half of 2009 looked far better on paper than their competitors. For example Catholic Health East, a 28-hospital system based in Newtown Square, Pa., that operates on a January-to-December fiscal year, posted a net income gain of about \$1.5 billion.

Martin Arrick, a managing director with ratings agency Standard & Poor's, says he wouldn't be surprised if two-thirds of the \$16.6 billion one-year upswing in net income reported by the systems in *Modern Healthcare's* survey was attributable to the performance of investments, rather than operations.

Arrick echoes Eager's sentiments that the management response to the recession may have strengthened many hospitals in the long run by forcing them to find immediate ways to make operations more efficient.

Special Feature

And the push toward efficiency—it may have felt more like a shove, in some cases—couldn't have come at a better time, given that the enactment of this year's Patient Protection and Affordable Care Act reform law is almost certain to mean lower reimbursements for many hospitals in the years ahead.

"If you start doing that now, in advance of all these pilots and demos, that just drops to your bottom line in the interim," Arrick says of cost-cutting efforts. "To the extent that you're out there in front, we're sort of feeling that the future is guarded, but the next few years could be wonderful in terms of operations."

In what might be called the Ten Figure Club,

six systems in the *Modern Healthcare* survey had billion-dollar year-to-year swings in their profitability in the positive direction. In addition to Catholic Health East and its \$1.5 billion gain, the others are: BJC HealthCare, St. Louis (up \$1.4 billion); Mayo Clinic, Rochester, Minn. (also up \$1.4 billion); Advocate Health Care, Oak Brook, Ill. (up \$1.1 billion); and Cleveland Clinic Health System (also up \$1.1 billion).

The system that recorded the largest improvement was Banner Health, which posted \$823 million in net income in 2009 after logging a \$767 million loss the year before—a \$1.6 billion reversal of fortune in the space of one year for the 21-hospital system, based in Phoenix.

Though remarkable on its surface, the Banner story mirrors another trend in the data: Each of those most-improved systems posted net losses in fiscal 2008 of more than \$400 million. And all of them were not-for-profit.

Dennis Dahlen, senior vice president and CFO at Banner, says the shock of the market crash and a loss of more than \$300 million on interest rate swap deals forced management into an immediate austerity plan that included reducing paid time off benefits and shift-differential pay and a workforce reduction of 300, along with \$50 million in overall productivity savings across the system.

"What I'm proud of ... is the way that this organization rose up when we faced a difficult financial challenge," Dahlen says.

10 LARGEST CATHOLIC HEALTHCARE SYSTEMS

Ranked by staffed acute-care beds, 2009

	Beds		Hospitals	
	2009	2008	2009	2008
Ascension Health	12,343	12,139	67	67
Catholic Health Initiatives	8,277	8,267	78	77
Catholic Healthcare West	7,259	7,249	41	41
Providence Health & Services	7,000	4,938	28	27
Catholic Health East	6,252	6,371	28	28
Trinity Health	5,393	5,401	32	32
Christus Health	5,261	5,463	32	30
Sisters of Mercy Health System	4,297	3,363	21	19
Catholic Healthcare Partners	4,028	3,963	30	30
SSM Health Care	2,958	2,999	15	15

Source: *Modern Healthcare's 2010 Hospital Systems Survey*

10 LARGEST NON-CATHOLIC RELIGIOUS HEALTHCARE SYSTEMS

Ranked by staffed acute-care beds, 2009

	Beds		Hospitals	
	2009	2008	2009	2008
Adventist Health System	5,935	5,596	37	37
Advocate Health Care	2,926	2,827	10	10
Texas Health Resources	2,904	2,712	14	16
Baylor Health Care System	2,706	2,467	22	18
Baptist Memorial Health Care Corp.	2,353	2,347	14	14
Iowa Health System	2,148	2,092	12	11
OhioHealth	1,636	1,802	8	8
Fairview Health Services	1,617	1,627	7	7
Methodist Hospital System	1,483	1,464	4	4
Norton Healthcare	1,313	1,258	5	4

Source: *Modern Healthcare's 2010 Hospital Systems Survey*

Down by \$100 million-plus

Banner also saw fairly consistent operational performance throughout the crisis, but that wasn't the story everywhere. Four systems in the survey posted negative swings in operating income of more than \$100 million: Jackson Health System, Miami, down \$191 million; LSU Health System, Baton Rouge, La., down \$191 million; Trinity Health, Novi, Mich., down \$150 million; and Ascension, down \$111 million.

Jackson's case was particularly notable because the 2009 drop in operating income came after a year in which the system already had posted a major loss the previous year, \$426 million on operations in 2008. Jackson lost \$619 million on operations in 2009.

The publicly run, six-hospital system based in Miami logged a \$185 million write-down on receivables in 2009, after a realization within the system that previous collection estimates on charges were far too optimistic, especially given patients' newfound financial hardships.

For those systems that did manage to find above-average gains in revenue and income, several say that not just austerity, but merger-and-acquisition activity was part of their strategy. Six-hospital MaineHealth added two hospitals through mergers and acquisitions during 2009, which accounted for two-thirds of the system's 33% net patient revenue growth in 2009.

"As hospitals were buffeted by the recession, they were looking to align," says Frank McGinty, executive vice president and treasurer of the Portland-based system. "We think it makes a lot of sense. We think we can accom-

For the complete ranking of hospital systems and an alphabetical list of survey respondents, visit the Surveys, Lists and Data section of ModernHealthcare.com