



The reality of the 21st century is that there will be more change in scientific knowledge during the next 25 years than there was in the entire last 100 years.

In scientific knowledge and advancement, we are exceeding four times the rate of change of the last 25 years—making the scale of change we experienced from 1905-2005 equivalent to what we will see from 2005-2030.

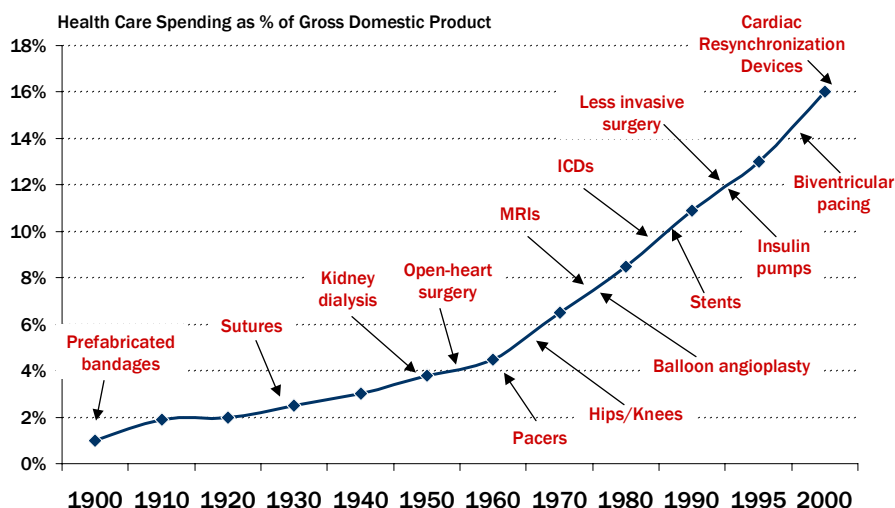
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Clinical Technology

New technology—its introduction and its use—has accounted for 20 to 40 percent of the annual rise in U.S. health care spending since 1960. Clinical technology is commonly cited as the major driver of rising health care expenditures worldwide. This trend, dubbed the technological imperative, is the demand by patients and their physicians for access to the latest equipment and procedures on the grounds of quality, and the willingness of third parties to pay for them. (Lawton R. Burns, Ph.D. *Futurescan: Healthcare Trends and Implications 2007-2012*)

Recent research demonstrates that the increased spending over the last part of the twentieth century has provided reasonable value measured in terms of increased life expectancy. (Cutler, Rosen, and Vijan, *The Value of Medical Spending in the United States, 1960-2000*)

Introduction of Medical Devices and Rise of Healthcare Spending, 1900-2000



Source: Adapted from Futurescan, Healthcare Trends & Implications, 2007-2012

Hospital Physical Plant

The future need for capital is largely influenced by projected demand for services and past capital investments. Sharply growing demand by an aging population and others and lack of past capital investment create the need for higher capital spending in the future (*HFMA Financing the Future Series*). Key factors influencing capital need:

- ☐ **Condition of hospital buildings:** Pennsylvania hospitals have one of the oldest physical plants in the country, requiring that capital investments be made to meet the needs of today's health care delivery system.
- ☐ **Future population growth rate:** Pennsylvania's 65 and older population will nearly double between 2000 and 2030. Individuals in this age group are the highest users of hospital services.
- ☐ **Future health status:** The number of people nationally with chronic medical conditions is projected to increase from 100 million in 2005 to 140 million in 2020.



- ❑ **Health professional education:** Pennsylvania has teaching hospitals, which must make capital investments to assure the quality of health professional education, as well as to keep and attract top faculty and researchers.
- ❑ **Historical capital growth rate:** Pennsylvania hospitals have spent less on capital investments in the past and will need to spend more in the future.

Physical plant improvement is needed for:

- Increasing emergency department and operating room capacity.
- Increasing lab space to allow for automation in response to shortage of lab technologists.
- Accommodating new technology.
- Building outpatient centers.
- Constructing new facilities due to population growth and/or land restrictions.
- Retaining and recruiting physicians.

Accessing Capital — Planning For The Future

A common misconception is that a hospital can operate at a break-even point as long as it is covering its day-to-day cash needs. But the reality is that, to keep clinically and structurally up-to-date and to be able to borrow money when a hospital needs it, the hospital must have sound fiscal health like any other business venture. (*Healthcare Financial Management Association in partnership with GE Healthcare Financial Services, 2004 report series “Financing The Future: How are Hospitals Financing the Future?”*)

The traditional source of funding for not-for-profit hospitals’ major projects has been tax-exempt bonds. Hospitals with significant financial strains and significant debt burden may have access to capital, but from a more limited number of sources and at a higher cost than hospitals with limited debt burden and healthier margins.

- According to a 2004 study by the Healthcare Financial Management Association (HFMA) along with GE Healthcare Financial Services, Pennsylvania is one of the top ten states with the highest percentage of hospitals with limited access to capital.
- The same HFMA study says Pennsylvania is one of eight states for which health care is an important part of the economy, suggesting the potential for significant adverse effects on local economies if the health care organizations can’t adequately invest in the future.
- According to a 2004 national *Healthcare Financial Management Association (HFMA) Financing the Future* survey, 47 percent of hospital CEOs say they can’t keep up with the basic need for capital improvements.

“Capital needs are not determined in isolation on a per-project basis. A hospital’s strategic plan is the driving force—short- and long-term goals and the steps needed to achieve them.

The hospital’s financial plan is one component of operationalizing the strategic plan, and includes actions to ensure necessary operating margin and profit margin, funds allocated to capital projects, and projections regarding the margin and other financial indicators necessary to cover capital costs and debt service.”

—HFMA Financing The Future 2004



State and Federal Budget Proposals Threaten Ability To Invest

- The Rendell administration's FY 2007-2008 state budget proposal calls for \$144 million in Medicaid payment reductions to hospitals.
- The President's federal budget proposal includes \$100 billion in cuts over five years to the Medicare and Medicaid programs, \$30 billion of those reductions in health care. The estimated impact on Pennsylvania hospitals of medical reductions alone is \$1.84 billion over five years.
- The Medicare inpatient prospective payment system (IPPS) proposed rule includes cuts in capital payments to hospitals, with an overall loss to Pennsylvania hospitals of over \$25 million in 2008.

How can many Pennsylvania hospitals make critical strategic decisions when Medicaid and Medicare reimbursements are historically inadequate, and budget policy for health care payment is unstable and unpredictable?

Government must make fair and adequate payments to hospitals and offer more grants for technology implementation to ensure hospitals can effectively implement long-term plans regarding care for their patients and communities.