



THE ADVISORY BOARD

Daily Briefing

"Nation's news in
five minutes"

News for Health Care Executives • Friday, March 07, 2008

SPOTLIGHT

Auction-rate collapse spurs some hospitals to refinance, try to self-bid

Following the collapse of the auction-rate bond market, some hospitals are assuming hundreds of thousands of dollars in new borrowing costs, forcing efforts to refinance their debt—and to change the rules governing how the auction-rate market works.

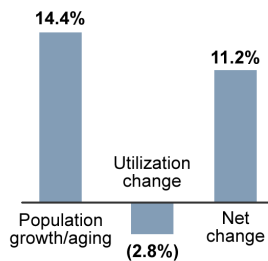
See story #1

RESEARCH HIGHLIGHT

Book of inpatient business remaining strong

The Innovations Center expects the next several decades to have no shortage of demand for high-end health care; recent reports of flatlining volumes are more an adjustment to unusually high growth rates in the early part of the decade than the harbinger of sustained volume declines. For most hospitals, inpatient business will still represent the lion's share of volumes—and profits—ten years hence. To learn more, please see the Innovations Center's *Hospital of the Future* study.

Inpatient admissions forecast*
2005-2015



*Population and utilization growth rates do not add up to net growth rate because the relationship is multiplicative, not additive

Source: Innovations Center Futures Database

THIS DAY IN BRIEF

House mental health parity bill takes aim at physician-owned hospitals

A bill passed on Wednesday in the U.S. House that would require most health insurers to offer mental health benefits equal in both cost and scope to coverage for physical illnesses includes a provision that would essentially "ban the growth of...specialty hospitals," *CQ Today* reports.

See story #2

Joint Commission outlines national performance measurement strategy

A white paper released yesterday by a Joint Commission expert roundtable proposes a framework for creating a national data infrastructure to measure and track performance and quality in the health care industry.

See story #3

CDC says vaccines safe after rare case linking shots, autism

Following reports that federal officials had acknowledged a link between childhood vaccines and autism in one patient, the CDC yesterday took steps to emphasize the safety and necessity of childhood immunizations, the *Baltimore Sun* reports.

See story #4

FROM THE ADVISORY BOARD

Finance Watch: Economic downturn may affect capital access, bad debt

Facing aggressive capital investment strategies, many hospital executives are taking wait-and-see approaches to how a potential economic downturn could affect their institutions' plans and performance.

See story #5

NAMES IN THE NEWS

Beth Israel Deaconess Medical Center (Mass.) (#1) ■ Dimensions Healthcare System (Md.) (#8)
Greater Baltimore Medical Center (Md.) (#4) ■ Huntsman Cancer Hospital (Utah) (#8)
Johns Hopkins Bloomberg School of Public Health (Md.) (#4) ■ Ministry Health Care (Wis.) (#1)
Prince George's Hospital Center (Md.) (#8) ■ UNC Health Care (N.C.) (#8) ■ University of Pittsburgh Medical Center (Pa.) (#1,8)
University of Texas-Houston (#9) ■ Virginia Commonwealth University (#8)



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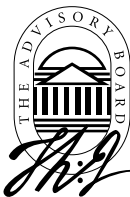
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► Today's Headlines

1 Auction-rate collapse spurs some hospitals to refinance, try to self-bid

Following the collapse of the auction-rate bond market, some hospitals are assuming hundreds of thousands of dollars in new borrowing costs, forcing efforts to refinance their debt—and to change the rules governing how the auction-rate market works. While auction-rate bonds are issued and rated as long-term bonds, their interest rates are ultimately reset every seven, 28, or 35 days at auction; the model has gained popularity after being introduced two decades ago, as the bonds' incremental yields have attracted investors while their lower costs have benefited issuers, Moody's Investors Service notes. Moreover, investment banks often purchased auction-rate bonds that failed to sell to investors, helping prop up the \$330 billion market. However, soaring interest rates and subprime lending concerns have helped drive the auction-rate bond market into a tailspin since late 2007; nearly 70% of periodic auctions failed this week alone, as banks ceased purchasing unsold securities, which meant the interest rate on many bonds was reset to as high as 20%. As a result, many hospitals have been stuck with unexpectedly high interest rates in recent weeks. According to the CFO of Marshfield, Wis.-based **Ministry Health Care**, the health system must pay an additional \$700,000 per month for increased interest on bonds used to fund its capital projects until it can refinance its debt; other organizations—including **University of Pittsburgh Medical Center** and Boston-based **Beth Israel Deaconess Medical Center**—report paying similar or even greater sums.

Seeking to avoid the crippling interest rates, organizations around the nation tried to restructure \$13 billion in auction-rate bonds just this week, says a senior portfolio manager with AIM Investments, an investment management firm. At the same time, given the difficulty of modifying bond contracts, the *Boston Globe* notes that hospitals and their Congressional allies are seeking some “unusual” relief: permission to bid on their own bonds, which would avoid the highest rates that kick in when auctions fail, while avoiding the added costs of refinancing or retiring the offering. Both Sen. Charles Schumer (D-N.Y.) and Rep. Barney Frank (D-Mass.) have offered proposals, and the chairman of the Securities and Exchange Commission this week said the agency was “looking very carefully at the investor protection aspects” of changing the bidding rules (Stiles, [Houston Chronicle](#), 3/6; McDonald, [Bloomberg](#), 3/5; Olson, [Wausau Daily Herald](#), 3/6; Kerber, [Globe](#), 3/5; Moody's [report](#), 3/5 [subscription required]; Tascarella and Mamula, [Pittsburgh Business Times](#), 2/20).

2 House mental health parity bill takes aim at physician-owned hospitals

A bill passed on Wednesday in the U.S. House that would require most health insurers to offer mental health benefits equal in both cost and scope to coverage for physical illnesses includes a provision that would essentially “ban the growth of...specialty hospitals,” *CQ Today* reports. Under the provision—which was not included in a version of the bill passed in the Senate last year—physicians could not refer patients to hospitals in which they have a financial interest—a move intended to save roughly \$2.4 billion across the next 10 years. According to the trade group **Physician Hospitals of America**, there are currently about 180 physician-owned hospitals nationwide; only about 30 are general hospitals, while the rest specialize in certain services such as cardiac surgery or orthopedics. While supporters of the model contend that such physician-owned facilities spur healthy competition and improve overall care quality, the bill responds to criticism that the facilities “cherry pick” the most lucrative service lines and patients and may give physician investors an incentive to unnecessarily increase volume. In addition to limiting the expansion of physician-owned facilities, the proposed measure specifies that an individual physician's investment cannot total more than 2% of the

total value of investment interests held in the hospital or in an entity whose assets include the hospital, while stating that physicians' aggregate ownership must not exceed 40% of that total investment interest value. In addition, it would require physician-owned hospitals to submit annual reports offering details on the identity of each owner and the nature and extent of those ownership interests, as well as to disclose to patients prior to admission when there is not a physician on the premises.

Commenting on the legislation—which is backed by the support of the **American Hospital Association**—Rep. Frank Pallone Jr. (D-N.J.) asserted that “physician-owned hospitals are a problem because they’re overutilized,” adding that legislators supporting the crackdown are “trying to end this practice of self-referral.” Proponents of physician-owned hospitals, however, have already announced plans to fight the proposed legislation during House-Senate negotiations, with Rep. Doc Hastings (R-Wash.) saying that “Congress should increase access to health care, not penalize and shut down [physician-owned] hospitals...that provide care in rural, underserved communities” (Armstrong, [CO Today](#), 3/5 [subscription required]; Dininny, [Associated Press/Seattle Times](#), 3/5; Lueck, [Wall Street Journal](#), 3/6 [subscription required]; Library of Congress [website](#), accessed 3/7).

3 Joint Commission outlines national performance measurement strategy

A white paper released yesterday by a Joint Commission expert roundtable proposes a framework for creating a national data infrastructure to measure and track performance and quality in the health care industry. Although performance and quality measurement efforts have sprouted up nationwide as health care payers and purchasers seek to alleviate rising health care costs, the roundtable notes that broadening such efforts to a national scope has proven challenging. Specifically, the roundtable cites challenges related to data ownership and control, local versus national data use, data sources, patient confidentiality, and a “general lack of uniformity and standardization.” The roundtable’s report outlines three broad strategies to guide national performance measurement efforts: standardizing measure definitions and data collection processes to produce comparable information, building a “data highway” to support the exchange and aggregation of data from information technology systems such as EMRs, and educating and cultivating trust among stakeholders by addressing privacy concerns and demonstrating the value of performance measurement. Within the three strategies, the roundtable proposes 22 principles to guide a national infrastructure, suggesting that a national performance measurement data system should “be a credible source of high-quality, actionable, timely data,” address information needs across the continuum of care, and “permit data transfer across multiple databases.” Noting that the performance measurement efforts cropping up nationwide remain a “hodge-podge of flowers and weeds rather than a garden,” the roundtable says that creating a national strategy for performance measurement will require not only overcoming barriers such as the lack of standardization but also creating a system that serves the varied needs of all users. The authors add that success will hinge on “concerted and collaborative effort...by all of the parties at interest, as well as the investment of [public and private] resources so often lacking in the past” (Joint Commission [report](#), 3/6; Joint Commission [release](#), 3/6).

4 CDC says vaccines safe after rare case linking shots, autism

Following reports that federal officials had acknowledged a link between childhood vaccines and autism in one patient, the **CDC** yesterday took steps to emphasize the safety and necessity of childhood immunizations, the *Baltimore Sun* reports. The move stems from a recent decision—believed to be the first of its kind—by **HHS**’s Division of Vaccine Injury Compensation to award an undisclosed monetary settlement to the family of a girl with a rare mitochondrial disorder that was exacerbated by a series of vaccinations administered in 2000, triggering autism. However, experts say

the case is an isolated incident, citing multiple studies that show no credible link between childhood immunizations and autism onset. One recent study conducted by the California Department of Public Health, for instance, showed that California's autism rates continued to climb even after thimerosal—a mercury additive long used as a preservative in vaccines and suspected by some to be a potential factor in autism onset—was removed from vaccines in 2001. Speaking on a telephone conference with reporters, CDC Director Julie Gerberding reassured the public that childhood immunizations are safe, noting that they are “proven to save lives and [are] an essential component of protection for children across America and around the world.” Echoing those statements, the director of the Institute for Vaccine Safety at the **Johns Hopkins Bloomberg School of Public Health** said that the agency's decision was “not an admission that vaccines cause autism.” Calling vaccines the “greatest leap forward in childhood health in 100 years,” a pediatrician at **Greater Baltimore Medical Center**, meanwhile, noted that “if we had polio cases in the community, this issue of vaccines and autism would go away very fast” (Desmon, [Sun](#), 3/7).

► From the Advisory Board

5 Finance Watch: Economic downturn may affect capital access, bad debt

The following is an excerpt from the Finance Watch, a monthly publication that provides timely perspectives on the major events and trends that shape hospital finance, offering actionable information to assist chief financial officers with the management of their institutions and workforce.

Facing aggressive capital investment strategies, many hospital executives are taking wait-and-see approaches to how a potential economic downturn could affect their institutions' plans and performance. Although hospitals historically have been protected against economic turbulence, the current fiscal environment—linked to uncertainty in the credit markets—may erode their traditional resilience to unemployment and consumer spending. Even though the effects and duration of a slowed economy remain unclear, health care experts point to rising uncompensated care rates, strained state budgets competing for Medicaid funds, and waning lender confidence as reasons for concern in the time ahead. And while not a sector-wide phenomenon, some larger institutions have been forced to restructure investments to stem multi-million dollar losses from rising bond interest rates.

For more information

To read more about an economic downturn's potential impact on hospitals, please see today's issue of the *Finance Watch*. How would an economic downturn affect your hospital's capital plans? Readers are invited to weigh in by voting in this month's member poll on the *Finance Watch* [homepage](#) or share feedback at FinanceWatch@advisory.com.

6 Transforming outpatient data for greater strategic utility

Given the importance of future trends in volumes and reimbursements to today's strategic planning efforts, the Innovations Center has launched its Outpatient Market Forecaster to allow members to apply—and customize—Innovations Center predictions of future utilization and profitability to their own institution's historical data, creating a robust, flexible tool for strategic planning. Members upload their own outpatient procedure code data (CPT/HCPCS or ICD-9), which is then run through a proprietary grouping algorithm to create a service line-based dashboard of the current hospital outpatient business.

These data are also combined with local demographic projections and Innovations Center forecasts of future health care trends to generate five- and 10-year utilization and financial projections. Unlike most planning tools, which are largely based on demographics, the Outpatient Market Forecaster provides rigorous, comprehensive forecasts incorporating the impact of new technologies, changes in care patterns, reimbursement, regulation, competition, and many other disparate factors.

The tool will help users interested in:

- Finding pockets of profitability among the various outpatient services offered
- Analyzing outpatient volume distribution within and across service lines
- Monitoring service lines most under future threat from ASCs, freestanding imaging centers, endoscopy centers, and other competitors
- Anticipating future volume and profitability trends across service lines

For more information

For more information about the Outpatient Market Forecasting Tool and to initiate use of the tool, click [here](#).

7 Utilizing analytics to improve nursing business performance

The Advisory Board is currently evaluating institutions for participation in its Nursing Compass cohort. One of the newest solutions in the Advisory Board's nursing portfolio, Nursing Compass is grounded in the world class best practice research of the Nursing Executive Center. It combines cutting-edge business intelligence technology with real-time problem solving support and performance benchmarking to provide timely, comprehensive, and accurate data at the individual unit level as well as enterprise-wide.

For more information

If you are interested in learning how Nursing Compass can impact performance at your institution, or for more information on any of the solutions in our nursing portfolio, please contact Chelsea Fleckenstine at 202-266-5710 or fleckenc@advisory.com.

► Regional Round-up

8 Around the nation: Bite-sized hospital and health industry news



- **Maryland:** Gov. Martin O'Malley (D) and Prince George's County Executive Jack Johnson yesterday announced a two-year agreement in which the county and state would each pay \$12 million a year to stabilize the county's hospital system while a newly created, seven-member hospital authority selects a new owner. The authority would need approval from the state Legislature before it could conduct an "open and transparent bidding process" for interested private companies across the next year. The agreement also stipulates that 60 days after the Legislature passes the bill, the state and county would have to agree to an amount each would be willing to pay "over the long run" to cover operating expenses and renovations to the facilities. Anchored by Cheverly-based **Prince George's Hospital Center**, the system is county-owned but managed by the not-for-profit **Dimensions Healthcare System** (Helderman, [Washington Post](#), 3/6 [registration required]).

- **North Carolina:** All hospitals and physician clinics affiliated with the state-supported **UNC Health Care** system last week began asking patients to pay their share of bills upfront, including co-payments for physician appointments and “big ticket” services such as MRI scans. The *Raleigh News and Observer* notes that in collecting fees upfront, UNC Health Care joins the ranks of most private medical practices and major health systems across the state and the country. Patients experiencing financial difficulties may set up a no-interest payment plan if they do not qualify for Medicaid or free or discounted care (Fisher, [Raleigh News and Observer](#), 3/6).
- **Pennsylvania:** The **University of Pittsburgh Medical Center** (UPMC) this week purchased a Monroeville hotel for nearly \$19 million with plans to convert the facility by 2010 into a new outpatient center housing an ambulatory surgical center, an urgent care center, physician offices, and expanded pediatric services. UPMC also purchased a three-acre lot behind the hotel, which could be used for parking (Toland, [Pittsburgh Post-Gazette](#), 3/6).
- **Utah:** Officials at the **Huntsman Cancer Hospital** this week announced a \$110 million expansion project that will double the size of the existing facility with the addition of a new six-story, 120,000-square-foot wing. In addition to expanding ORs and imaging and radiation treatment areas, the project—set to begin by the end of this year—will double the number of existing beds, bringing the hospital’s total bed count to 100. Additionally, the extra space will allow the Huntsman Cancer Institute to expand the size of its Cancer Learning and Wellness Centers and increase program activities including new Blood and Bone Marrow Transplant and Myeloma programs. The project is slated for completion in 2011 (Rosetta, [Salt Lake Tribune](#), 3/6).
- **Virginia:** **Virginia Commonwealth University** in September plans to launch a three-year Web-based project to encourage the delivery of preventive health services. Called My Preventive Care, the password-protected system will interview patients and check their electronic health records before sending patients and their physicians reminders about preventive screenings. The system also will offer tailored health recommendations, provide links to information resources, and help patients assess their risks for conditions such as heart disease and breast cancer. The VCU study—funded with a \$1.2 million grant from the **Agency for Healthcare Research and Quality**—will involve eight physician offices with 5,500 patients in Northern Virginia, half of whom will be randomly selected to use the Web-based system (Hostetler, [Richmond Times-Dispatch](#), 3/6).

► Endnotes

9 Et cetera

Daylight savings danger: Time shift forward disrupts body clock, sleep

Experts say there will be quite a few groggy drivers on the roads next week following the Daylight Savings Time shift this Sunday, when clocks spring ahead one hour—and most people lose an hour of sleep. The majority of people will need only several days to reset their internal body clocks, but some “habitual night owls may have trouble getting enough sleep for weeks,” according to a study by German researchers published in the journal *Current Biology*. The time shift may also have more dangerous implications, according to a chronobiologist at the **University of Texas-Houston**, who notes researchers have documented increases in traffic accidents in the days immediately following the spring ahead. However, planning can minimize the impact of lost sleep, according to the **American Academy of Sleep Medicine** (AASM), which suggests that people should eat dinner and go to bed an hour earlier for a few days before the time change, and avoid napping—especially before bedtime. On the Monday after the time change, the AASM also recommends keeping a “light schedule,” for example by minimizing driving and avoiding taxing physical activity.

—Painter, [USA Today](#), 3/3; [HealthDay](#), 3/2