



Connecticut Hospitals Lost Ground in FY 2006

Statewide Average Total Margin Declined

Despite a relatively stable state economy, Connecticut's hospitals lost ground in fiscal year (FY) 2006. Statewide average total margin slipped from 3.34% in FY 2005 to 2.51% in FY 2006. This decline can be attributed to a significant decrease in average operating margin, as shown in **Figure 1**. This 64% drop in average operating margin was slightly offset by a 17% increase in average non-operating margin.

Figure 1: Statewide Average Hospital Margins

Fiscal Year	2002	2003	2004	2005	2006	Change' 05-'06
Operating Margin	0.35%	0.44%	1.47%	1.72%	0.62%	-64%
Non-Operating Margin	0.50%	0.70%	1.59%	1.62%	1.89%	17%
Total Margin*	0.85%	1.14%	3.06%	3.34%	2.51%	-25%

Source: Connecticut Acute Care Hospital Annual Reporting

*Average calculated using dollar amounts. (Excess of Revenues over Expenses/Total Revenues)*100.

Increase in Hospital Expenses Outpaced Increase in Hospital Revenues

While both hospital revenue and expenses increased, expenses grew at a greater rate, reducing hospitals' operating gains. Between FY 2005 and FY 2006, the gains from operations statewide dropped 62%, from \$117 million to \$45 million. In contrast, between FY 2004 and FY 2005, gains from operations statewide increased 24%, from \$94 million to \$117 million. Aggregate hospital operating revenue increase of 6.4% was outpaced by a 7.6% increase in expenses. While non-operating revenue increased by \$27 million over the year, hospitals' bottom lines dropped from \$228 million to \$183 million, a 20% decline. Gains from investments rose 25% in FY 2006, helping to offset the overall decline in operating income.

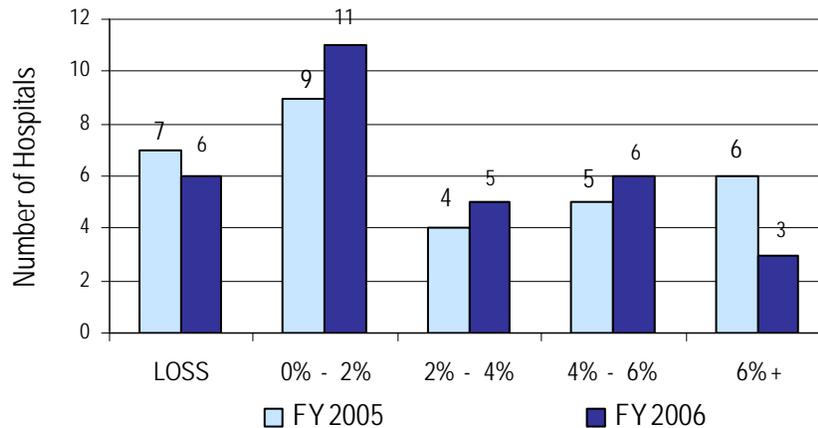
The decline in operating margin may be due to a combination of factors. First, hospitals experienced a drop in the overall number of patient days, which fell by 14,439 from FY 2005 to FY 2006. Second, hospitals added an additional 745 FTEs (full time equivalents) in FY 2006, which added to hospital expenses with respect to both salaries and fringe benefits. Finally, increasing energy costs also contributed to climbing hospital operating expenses.

Fewer Hospitals Had Negative Total Margin, But More Experienced Operating Losses

The number of Connecticut hospitals with a negative total margin dropped from seven in FY 2005 to six in FY 2006, as shown in **Figure 2**. However, while FY 2005 saw six hospitals with a total margin exceeding 6%, that number dropped by half in FY 2006.

More hospitals experienced operating losses in FY 2006 than in FY 2005, climbing from 11 to 14. Nearly half, 45%, of the states' hospitals experienced operating losses in FY 2006, the highest number since FY 2000, when 48% of the states' hospitals posted operating losses. In contrast to FY 2005 when three hospitals had operating margins in excess of 6%, no hospitals reported operating margins greater than 6% in FY 2006.

Figure 2: Statewide Distribution of Total Margin



Source: Connecticut Acute Care Hospital Annual Reporting

The data used in this report were compiled from data filed with OHCA by Connecticut's 31 acute care hospitals. Annual operating results are required to be filed with OHCA pursuant to Sections 19a-644 and 19a-676 of the Connecticut General Statutes and Section 19a-167g-91 of the Regulations of Connecticut State Agencies. The data are based on the hospital fiscal year, which occurred from October 1, 2005 through September 30, 2006.

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