

QUICK-HITTING SURVEY CAPITAL SPEND

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Executive Summary

Methodology

In October 2018, The Health Management Academy conducted a quick-hitting survey of Leading Health Systems' capital spending and financial practices. The 13 responding Senior Finance Executives represent health systems with an average Net Patient Revenue of \$3 billion that own or operate 77 hospitals with 16,000 beds and approximately 900,000 admissions per annum.

Key Findings

- On average, health systems project a 5-year capital spend of 160%, 128%, and 155% of depreciation for small, medium, and large health systems, respectively.
- Financial executives report that the primary focus of capital spending will be inpatient facilities (47%), although a significant amount will also be attributed to investment in outpatient facilities (31%).
- On average, health systems plan to split capital spending evenly between strategic (49%) and operational (51%) functions over the next five-year period. However, strategic and operational spending projections vary significantly between individual health systems.

Results

Capital spending projections

Finance executives were asked to estimate their capital spending for each of the next 5 years as a percentage of depreciation. The results were segmented by health system size (Table 1). The five-year average for estimated capital spending for small, medium, and large health systems is 160%, 128%, and 155% respectively. On average, small (NPR <\$2B) and large (NPR >\$5B) size health systems project an overall decrease of 66% and 70% in capital spending, respectively, from this year (2018) to five years from now (2023). Capital spending for medium sized health systems (NPR \$2-5B) is expected to increase 28% over the same period.

TABLE 1. ESTIMATED CAPITAL SPENDING AS A PERCENTAGE OF DEPRECIATION BY YEAR

Fiscal Year	Small (NPR<\$2B)	Medium (NPR \$2-5B)	Large (NPR>\$5B)
2019	228%	102%	198%
2020	164%	120%	155%
2021	109%	146%	132%
2022	110%	159%	129%
2023	162%	130%	128%
5-year Average	160%	128%	155%
5-year Difference	-60%	+28%	-70%

Major investment areas

Financial executives report that total capital spending over the next five years will be focused primarily on inpatient facilities (47%), although a significant amount will also be attributed to investment in outpatient facilities (31%). The remaining capital spend is attributed to other initiatives (23%) (Figure 1).

Health systems expect capital spend will be evenly split over the next five years between operational spending on maintenance, normal upgrades or repairs (51%) and strategic spending on new initiatives or business plans (49%). However, spending varies greatly by health system with some systems planning to designate as much as 87% of total capital spending towards strategic spending, whereas other systems will allocate 80% of total capital towards operational spending.

Debt, Growth, and Assets

Most health systems (83%) have a bond rating in the A-range, and only two of the thirteen responding systems reported a bond rating in the B-range. The most common bond rating among health systems was AA and on average health systems have a bond rating of A+/A1.

The average debt to total capital ratio for the five-year period is 32.1% among major health systems, with a range of 18% to 60% for all reported ratios. Leading health systems also estimate that compound annual growth in net patient revenue will be 4.9% over the upcoming 5-year period, with a range of 1% to 15% overall. Over this five-year period, the average estimated operating margin was 3.6%, 3.8%, and 4.0% for small, medium, and large systems, respectively (Figure 2). The target number of days cash on hand reported by health systems also varied by size of the system; the average days reported was 197, 252, and 280 for small, medium, and large systems, respectively (Figure 2).

FIGURE 1. FOR YOUR ORGANIZATION'S TOTAL CAPITAL SPENDING OVER THE NEXT FIVE YEARS, WHAT PERCENTAGE IS FOR INPATIENT FACILITIES, OUTPATIENT FACILITIES, AND ALL OTHER TYPES OF INITIATIVES?

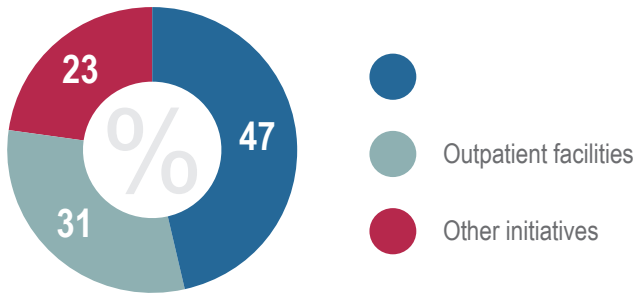


FIGURE 2. (BLUE) WHAT IS YOUR TARGETED DAYS CASH ON HAND FOR THE FIVE YEAR PERIOD? (RED) WHAT IS YOUR ESTIMATED OPERATING MARGIN OVER THIS FIVE YEAR PERIOD?

