



# CEO News & Views

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## Watching The Fiscal Storm

As this is written, unemployment has risen drastically. The volatile stock market has taken another of its precipitous daily drops. From our peers, I hear stories of hospitals scrambling to finish already-started construction projects less expensively, or delaying scheduled ground-breakings. Some have suspended all capital spending on big-ticket items like technology and build-ings. Others are bracing for an even-faster rise in the number of unin-sured patients if

unemployment continues to rise. Because people may be less able or willing to spend co-pays or tap into health spending accounts, there's reason to expect fewer will use elective and ambulatory health care services in the near future.

In other words, the economic storm around us seems to be intensifying. And many forecasters predict a prolonged stretch of bad financial weather may follow.

Happily, at this point, UCH is in good position to weather storms. We are in a strong cash position, our patient volumes remain healthy, and we have maintained excellent cost control.

But we'd be foolish to ignore what's happening, or to fail to plan for what may be a bumpy period.

## UCH and the Credit Squeeze

Our biggest concern at the moment is the bond market. Like most hospitals, we sell bonds – they are actually loans; bond buyers lend us money, and we pay them back with interest each year – to finance big projects. To help build the Anschutz Medical Campus (as well as the Critical Care Tower and Emergency Department expansion at 9th Avenue), we have sold \$527 million in bonds in recent years. The higher the interest rate we must pay on those bonds, as you might imagine, the more expensive it is for us to repay that debt.

The bond market, in turn, has been at a virtual standstill for months. With the loss in confidence that *anyone* can reliably pay back the principal and interest on bonds, many have been going unsold.

About \$290 million worth of the bonds we previously sold, moreover, were designed to be re-sold regularly.

Those are called “variable rate” bonds, and must get put back on the market periodically. The logic is that we can often re-sell the bond at a lower interest rate. And variable rate

bonds have, in fact, saved UCH millions in interest payments during the last several years.

But the bond market's standstill presents problems. A bond left unsold for a certain period becomes a “bank bond,” and if it remains a bank bond for too long – six months – it ceases being a bond that we repay over 30 years. Instead, it becomes a short-term loan that has to be repaid to the bank in five years.

As those of us with mortgages can attest, repaying a big loan over five years dramatically drives up your monthly payments. Repaying almost \$290 million in loans over five years instead of 30 would increase payments to untenable levels.

It is that specter that is driving some hospitals to freeze all capital spending and, if the pessimists are correct, may well lead others to close down or consolidate with stronger organizations.

## Staying Strong

We count ourselves one of the stronger organizations, but staying strong as long as the bond and credit markets remain at a standstill will be a challenge.

Our strategies for overcoming this next challenge include switching as many variable rate bonds as possible to fixed rate bonds, perhaps even by buying some of our own bonds.

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Financially, we believe it is absolutely crucial to keep as much cash on hand as possible for the duration of the bond market standstill, and so we may need to cut back on our capital spending at some point. (We don't know *if* we'll need to do so yet, much less when or by how much.)

We also will need to be even more careful than ever about adding new positions.

I realize that some might take issue in my being this open and direct about such a difficult cluster of issues. I also know how confusing and concerning this may be to you. It is very complex, but it is vitally important that all of us understand the challenge UCH faces today.

We have become this strong and vibrant by communicating openly and working together. I'm certain we'll weather the economic downturn successfully in exactly the same way.

## Kudos

Congratulations to all the recipients of this year's **President's Awards**, which were handed out on November 13th. It was a great evening, and the stories about the recipients reminded us how lucky we are to have such great colleagues.

**Turkey time.** As part of our annual thank-you to you, last week we distributed more than 3,000 turkeys to UCH employees and volunteers. Many thanks to **Gaelen Quinlivan** and **Chris Comer**, organizers of this year's huge give-away, and we all owe a special thanks to some 700 employees who donated their turkeys to Montview and Paris elementary schools and the Denver Rescue Mission.

Now that the holiday is upon us, let me thank you for what you do every day to make UCH a better, more caring place for our patients and each other. I feel very fortunate to have each of you as my colleague. Have a wonderful Thanksgiving with your loved ones and friends.

Sincerely,  
Bruce