CEO News & Views

an update from Bruce Schroffel

University of Colorado Hospital
ANSCHUTZ MEDICAL CAMPUS

January 20, 2009

In This Issue

Our big, unusual fundraising event

A couple of years ago, in the midst of discussing how the new University of Colorado Hospital Foundation he'd just co-founded could help the hospital, Pete Coors confessed he'd always thought Valentine's Day should be a day for the young as well as adults.

From that confession grew our "Hearts of All Ages" fundraising event, where everyone from our youngest (including Pete's grandchildren) to our oldest family members come together on Valentine's Day to support the hospital

Our Credit Rating Rises

We received some great news today: Moody's Investor Services has "upgraded" its rating for the University of Colorado Hospital.

This is reason to celebrate. As a matter of fact, you should give yourself and your colleagues a hearty pat on the back.

In this awful economic environment - where 26 other hospitals were downgraded in December - it is a ringing, hugely flattering compliment to you and the work you do here every day. It is going to save us literally hundreds of thousands of dollars in interest payments. In these troubled times, that pays for a lot of care and a lot of supplies.

Needless to say, Moody's announcement is a rare burst of bright sunshine in a generally gloomy economic time for hospitals and the world in general.

How It Saves Us Money

In Wall Street's language, Moody's improved our rating from Baa1 to A3, with a "stable outlook." In effect, Moody's is saying our creditworthiness significantly improved. To maintain this rating, it expects us to perform at the present level or better.

And, because bond buyers can be assured they're taking a smaller risk in buying our bonds given our improved financial condition, this tremendous news means the hospital will pay less in interest.

We have sold more than $500 million worth of bonds, as you know, to raise money for large capital expenses like the construction of our buildings at both the old 9th Avenue campus and the Anschutz Medical Campus. Needless to say, we pay the bond buyers interest on the bonds each year. Because the market has been so bad, we had to pay almost $1.1 million *more* in interest than we'd planned on our Baa1 bonds through December. Assuming the market does not deteriorate more, we expect to be paying significantly less on our newly upgraded A3 bonds.

(Fitch Ratings, the other credit rating agency that monitors us for investors, is expected to release its findings soon.)

Doing Well...

But health care, as I've emphatically recounted here many times, is not a recession-proof business. Just last week, the University of Chicago Medical Center trimmed $100 million in expenses and Banner Health laid off 334 of its Arizona employees. An American Hospital Association survey found that as of November more than 50 percent of the nation's hospitals were actively pondering administrative and staff and, not incidentally, eat, dance and play games. Our first one last year was one of the most unusual (and successful) fundraising "galas" I've ever attended. The second is coming up February 14 at Invesco Field at Mile High. This year's beneficiaries are the divisions of Neonatal Intensive Care and Geriatric Medicine.

cuts. More than half anticipated delaying expensive construction or technology projects.

So far, UCH has performed brilliantly during this unusually steep downturn. We entered it in very strong financial shape. Since then, our operating performance - the numbers of patients we've seen, the sound clinical and cost-efficient ways we've treated them, etc. - has continued to be good. Our December financial statements remained ahead of our revenue and below our expense forecasts for the fiscal year, which will end on June 30.

... But Hardly Immune

The great suffering of individuals, however, has not abated. Patients are deferring health care visits. They are putting off elective and even some not-so-elective procedures. When they lose their jobs and their health insurance, many simply cease health care altogether. When they're in medical trouble, they turn for help to emergency rooms but may not have the ability to pay for whatever care they can get.

We expect the amount of uncompensated - meaning free - care we provide will probably rise from $163 million to about $190 million this fiscal year.

A Hiring "Chill," Not A Freeze

So despite the great news from Moody's and our terrific operating performance so far, there is still much healing to do. Our mission requires still more respect for and attention to the concerns of our patients, their families and, not least, our colleagues. Keeping the hospital healthy amid this ongoing (and perhaps still-accelerating) financial turmoil requires still more caution.

We have for months been even more conservative than usual in making purchases and creating new positions.

Now we are taking another precautionary step: we are slowing down our non-clinical hiring. Clinical positions will continue to be filled quickly.

This is not a hiring freeze. It is a purposeful effort to conserve our resources during a wrenching time for our patients, our employees, our hospital and our society. Yes, we are doing well financially. But, given the turbulance of the economy, it is the time for still more prudence.

While this spectacular news from Moody's validates our discipline and collaboration with our partners throughout the enterprise, we need to be cognzant of the fragility of our present environment and be cautious from every vantage point.

But I'd be remiss if I didn't send my most sincere THANKS and admiration to each of you.

Sincerely,

Bruce Schroffel