

2011 Financial Health Report For the St. Charles Health System

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EXECUTIVE SUMMARY

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ECONOMIC RESEARCH OF THE ST. CHARLES SYSTEM

As part of ongoing negotiations with the St. Charles Medical Center in Bend, Service Employees International Union (SEIU) Local 49 asked ECONorthwest to provide an independent evaluation of St. Charles Health System's (SCHS) financial health. Specifically, we were asked to address the following questions:

- *How has SCHS described its economic condition and prospects in recent months?*
- *What criteria do analysts use to determine if a hospital or hospital system is financial troubled? Using these criteria, how has SCHS performed in recent years?*
- *Looking forward, what are SCHS's prospects? Will health care reform adversely affect SCHS?*

Briefly, while SCHS suggests that it is struggling financially, our analysis of common indicators of hospital performance suggest otherwise. SCHS is profitable, and its profitability was in line with recommended benchmarks. In light of this and other performance indicators, Moody's Investors Service (a bond rating agency) upgraded its outlook from stable to positive only one year ago.

Looking forward, we do not see any imminent threats that will weaken SCHS's performance. SCHS is the dominant provider in an industry and a region that are both expected to grow in the future.

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HOW HAS ST. CHARLES DESCRIBED ITS ECONOMIC CONDITION AND PROSPECTS IN RECENT MONTHS?

St. Charles Health System suggests that its financial health is poor, that its recent performance has fallen short of expectations, and that its recent declines are harbingers of future weakness; however, earlier in 2011, in its annual disclosure report to bondholders, *St. Charles Hospital System described its own financial performance as “solid.”*

BASED ON COMMON INDICATORS OF FINANCIAL PERFORMANCE, IS SCHS FINANCIALLY TROUBLED?

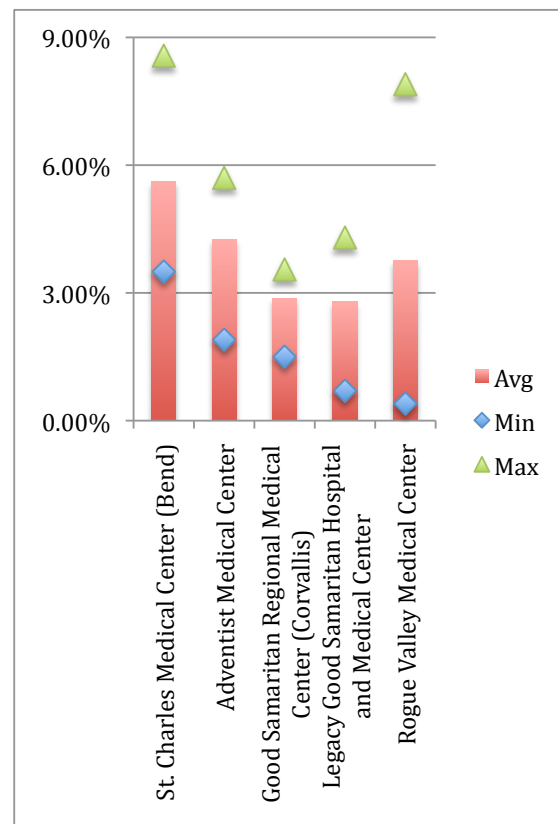
No. SCHS is not financially troubled.

Troubled or unhealthy hospitals earn insufficient income to finance the investment required to maintain and grow their business, are vulnerable to shocks, and struggle to pay their debts. Recent financial data produced by SCHS does not suggest that it faces any of these problems.

In particular, SCHS is profitable. Its operating margin over the period January 2009-August 2011 exceeds the 3 percent threshold that analysts frequently use to evaluate hospital financial health.

The Bend hospital’s operating margin consistently exceeds that of its peer hospitals in Oregon. Along all key dimensions, SCHS performs well and its performance has improved in recent years. It has sufficient liquidity to

Figure 2. Average, Maximum, and Minimum Operating Margin 2005-2009, SCHS Bend and Peer Hospitals



Source: ECONorthwest analysis of audited financial data.

absorb shocks. It is not over-leveraged and it can pay its current debts. It has relatively new facilities. Barring some significant structural change, as the economy recovers, SCHS’ financial performance will likely improve.

**LOOKING FORWARD,
WHAT ARE THE HOSPITAL'S
PROSPECTS? WILL HEALTH
CARE REFORM ADVERSELY
AFFECT SCHS?**

SCHS's financial health is unlikely to decline in the near future. Even after health reform implementation, economists expect spending on health care in the U.S. to continue to rise. Barring substantial declines in Central Oregon's population or economy, *SCHS will benefit from the expected growth in health care spending*

**HOW WOULD IT AFFECT SCHS' FINANCIAL PERFORMANCE TO
GIVE SEIU-REPRESENTED WORKERS A 3.5% RAISE FOR EACH OF
THE NEXT THREE YEARS?**

SEIU has proposed an annual raise of 3.5 percent for each of the next three years for 600 of the lowest paid workers at the SCHS's Bend hospital. SCHS management contends that SEIU's wage and benefits proposals are not sustainable. The union's proposal for 3.5 percent annual increases would cost approximately \$525,000 in the first year and \$1.6 million by the third year. This amounts to between 0.1 and 0.3 percent of SCHS's 2010 operating revenue or less than the amount paid to between one and four SCHS executives in 2010. *It would take significantly greater increase expenditures to jeopardize the system's financial health.*



For the full 2011 Financial Health Report for the St. Charles Health System, visit www.wearestcharles.org