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August 21, 2009

Commissioner Heather Howard  
New Jersey Department of Health and  
Senior Services  
Health and Agriculture Building  
369 South Warren Street  
Trenton, NJ 08625

Dear Commissioner Howard:

I would like to thank you for the opportunity to submit the attached application for a Health Care Stabilization Grant and also thank you and your department for the efforts you are making to maintain access to essential healthcare services for New Jersey residents, especially at this difficult time for our State and for the nation. I know that many hospitals in New Jersey are struggling and I am certain that our application will be one of many the department will receive. In the next few paragraphs, I would like to summarize the key issues confronting Hoboken University Medical Center (HUMC), how and why we got there, why we need "stabilization" funding and what the potential consequences for the hospital and the community will be if we do not receive the financial support we need.

First though, I would like to address a unique situation that HUMC is facing, which is different than most other hospitals and which makes our situation even more dire. As you know HUMC and all its assets are owned by the Hoboken Hospital Municipal Authority. Those assets are all pledged toward the guarantee for \$52 million in bonds that the authority issued at the inception of HUMC. The reason this is an important fact is that HUMC does not have the ability to borrow funds for short or long term without additional guarantees by the City of Hoboken, which in this economic climate will not be forthcoming. HUMC truly has no alternate sources for funding. Any working capital and reserve funds that existed within the \$52 million have been used and it is highly probable that HUMC will face an unfunded payroll situation. This scenario was twice narrowly avoided in the last few months by last minute advances of State funds for which we are very grateful.

How did we get to this point? When looking back at our 5-year plan, which was submitted to the department at the inception of HUMC, a few key variances are evident.

#### *Expenses*

First, the facility we inherited from Bon Secours turned out to have more needs than anticipated because of the chronic underfunding in the years of 2000-2006. Consequently, the expenses

exceeded our projections in 2007 and in 2008. When we converted in February of 2007, we had already spent over half of the \$13 million Bon Secours pledge in needed improvements and operational activities that Bon Secours stopped funding during the negotiations. So we started our turnaround with less working capital than anticipated. In addition we had to fund numerous improvements such as sprinkler system, boiler upgrade, infrastructure repairs and upgrades, IT data center and infrastructure, etc. in late 2007 and 2008. It is indicative that when we took the hospital over, all IT systems were run off-site in Virginia. There was not a single server or application hosted in our building. We had to create a data center from scratch, re-cable all of the facility, migrate all systems and applications, and in almost every case incur significant cost to upgrade to current versions because Bon Secours had stopped funding upgrades years before the transition. All of these things were required to come up to code compliance and for the basic operation of the facility. None of these things resulted in more census, income, new product lines, etc. They were simply infrastructure needs that had to be filled in order to operate at the most basic level as a hospital. In 2009, we took significant steps towards reducing our expenses; including personnel reductions and thus our expenses in 2009 are anticipated to be about \$5 million less than in 2008.

### *Economy*

Enter the freefall of the economy in the last half of 2008. HUMC, as many other hospitals was hurt significantly by the drop of elective care cases and data suggests that even non-elective care was postponed resulting in very anemic results in the later part of 2008. At the same time, the hospital was caught in the middle of converting part of the \$52 million bond (approximately \$10 million) to a taxable bond in order to be able to use it to fund operations. Unfortunately the timing could have not been worse, as the market crashed right at the same time and we had to scramble and refinance twice within six months with very significant costs in interest and closing fees.

### *Revenue growth*

The focus on resolving the most basic of needs, took away time, energy and more significantly money from activities to grow our business. Despite this we were able to successfully complete the most important project in the history of the hospital since the 70's. We built the new emergency room and opened it ahead of schedule and under budget on June 16<sup>th</sup>, 2009. This emergency room, which is decades overdue is changing the face of health care delivery in our market. It has been received extremely well in the community and is showing the early signs of bearing fruit, but it will need time to ramp up and deliver increased volumes to the hospital. Other projects, such as an upgrade of our OB facilities, are on their way. However, because of the need to use more bond funds for working capital than we initially anticipated, some projects did not fare as well and we have had to postpone or cancel them, which has cost us some potential growth in business in the years 2007-2009. Cumulatively, we have seen less growth than we would have wanted through the middle of 2009 and it is only now, with the opening of the new ED, that we are starting to see additional growth.

In addition to the energy and focus we have invested in our new emergency room, since June of this year, our new administration has embarked on an active mission to collaborate with other facilities, find ways to improve the efficiency of the services provided in Hudson County, develop new services and recruit physicians. To that end we are engaged in active discussion with Jersey City Medical Center about ways to collaborate in cardiac care, EHR, neurosurgery and other areas. Although we are at the very beginning of the process, much progress has been made. We have

also met with most of the other hospital CEOs in Hudson County and have also explored affiliations beyond the borders of our county. In collaboration with Stevens Institute, we have engaged in developing a 5-year strategic plan for HUMC, which will be completed by the fall of 2009. We are talking to FQHCs about ways to collaborate on our outpatient clinics and we have been canvassing the physicians in our community to engage them in dialogue about having more of their patients receive care at our hospital instead of in New York or outside our County.

*State funding*

The final variance from our 5-year plan is the shortfall of State funding over the last three years. Specifically, as you will see in the attached application, the total variance between what we anticipated receiving and what we received is approximately \$18.3 million. While by no means the only factor, and while we understand the challenges faced by the State, this underfunding is the proverbial straw that may break the camel's back. Without "stabilization" funding from the State, the hospital will be faced with a real threat to its sustainability. We feel that we have discharged our duties in good faith and to the best of our abilities and we will continue to do so for the benefit of the patients we serve. We have not eliminated or reduced services for the un- and underinsured. We do not feel that closing a service or clinic and pushing those patients to a neighboring facility will solve any problems. It may give us some temporary relief, but will only create a "domino effect" putting other financially challenged facilities in Hudson County at risk. We have diligently provided necessary care for Hoboken residents but also for residents of neighboring cities as evidenced by the number of patients we serve from surrounding communities, some of them with their own hospitals. We believe the solution can only be found in strengthening the health care delivery system in Hudson County and reducing the number of patients out-migrating to New York and other New Jersey Counties.

In closing, I would like to stress that HUMC is at a turning point, equidistant to the summit of success as to the potential for failure. We are ready and willing participants in finding solutions, and as outlined above have started dialogue with our peers, but we need to be stabilized this year in order to have a fighting chance.

Thank you for your consideration,

Respectfully submitted,

  
Spiros Hatiras  
Chief Executive Officer

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