NEW JERSEY **VOLUME I-10**
BUILDING CONTRACTOR
OFFICIAL PUBLICATION /BUILDING CONTRACTORS ASSOCIATION OF NEW JERSEY

Healthcare Helps Drive New Jersey's Economy

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Despite chronic concerns about the affordability, quality and availability of America's healthcare system, most people recognize that hospitals are a vital public resource and provide invaluable services and benefits to our way of life.

In New Jersey, hospitals serve more than 18 million patients annually. In many towns, the local hospital is the single largest employer, providing needed jobs and health insurance benefits, community health services, and expenditures to local merchants and businesses. They also give back to the community as the primary source of medical services for the State's 1.3 million uninsured, offering a healthcare safety net for the needy and working poor at a cost of nearly $1.5 million a year in charity care.

Yet, while recognizing the societal benefits of hospitals and other medical facilities, few people realize the enormous contributions they make to New Jersey's economy, both in good times and bad. For example, the healthcare industry is our state's second largest employer. In 2008, New Jersey's 73 acute-care hospitals provided more than 145,000 full and part-time jobs, $7 million in salaries, $2.3 million in purchased services, and $18 million in total spending. Hospitals are taxed in excess of $72 million annually and their employees pay some $400 million in state income taxes.

Labor statistics show that the healthcare sector is second only to state, county and municipal governments in total employment and remains the State's single largest industry for job growth. Simply stated, hospitals are economic bastions, serving as reliable sources of jobs, taxes and spending that help stabilize communities even in difficult economic times.

Two Projects Stimulating the Economy

Two examples of this economic stimulation are taking shape in Plainsboro (Middlesex County) and Hopewell (Mercer County). The University Medical Center of Princeton is building a new seven-story, 636,000 sq.ft. medical center in Plainsboro that will serve as the hub of a 160-acre health campus, encompassing an attached medical office building, education center, skilled nursing facility and a 32-acre public park. The new facility is scheduled to open its doors next year at an estimated cost of $441 million.

Plainsboro officials say the huge project is already creating up to 3,300 construction jobs paying out some $190 million in payroll. They are further estimating that 4,800 long-term jobs will be created within commuting distance of the hospital, with a total payroll of nearly $200 million. The annual overall economic impact of the medical center is expected to be $1.2 million.

In nearby Hopewell, Capital Health is constructing a combined 297,000 sq.ft. hospital and adjoining medical office building on a 165-acre parcel to replace its aging Mercer Medical Center in Trenton. Expected to cost more than $230 million, the project is creating more than 1,300 onsite jobs during the construction process and generating $29.5 million in material purchases within the region.
A fiscal impact study found Capital Health will have 1,520 full-time employees working in Hopewell, once the hospital opens, generating some $167.9 million in annual expenditures. Local business outlets can expect a $27.3 million uptick in revenue from hospital employees buying various goods, and the municipality will receive more than $312,000 in new property tax revenue from the complex.

"Like other sectors, hospitals have felt the sting of recession," says Sean Hopkins, senior vice president of health economics for the NJ Hospital Association. "But the demand for healthcare doesn't go away, and that makes hospitals a critical part of the Garden State's social infrastructure and its economy."

Peaks and Valleys in Life Sciences Industry

Much the same can be said of another critical component of New Jersey's healthcare system – the biopharmaceutical and medical technology industry, sometimes called the life sciences industry. This sector had a record $29 million impact on New Jersey's economy in 2008, according to a study conducted by Deloitte. In addition to some 60,000 direct jobs, the pharmaceutical industry has a major impact on employment in other areas of the state's economy, supporting up to 88,000 spin-off jobs in 2008.

The number of biotechnology and life sciences companies continue to increase in the State with start-up, small, mid-size and fully integrated firms nearly tripling over the past decade. New Jersey is also home to 17 global companies that have domestic, North American or global headquarters located here. The industry invested $7.7 million in research and development activity here in 2008.

"Though New Jersey has lost ground in the percentage of the industry that exists here, we still have an extraordinary concentration," says Bob Franks, president of the Healthcare Institute of NJ, which represents 35 members of the State's research-based biopharmaceutical and medical technology industry. "We are still the location of choice for the creation of major facilities, not only for domestic companies, but global firms."

Hospitals Suffering Economic Ills

Still, as with most businesses and industries nationwide, hospitals and Big Pharma in New Jersey have witnessed difficult times over the past two years as the recession has taken a sizeable bite out of their bottom line. Not unlike the rest of the country, financially distressed hospitals across New Jersey have been forced to discontinue services, narrow the breadth of procedures and eliminate vital community programs. Many have closed, merged or considered joint ventures, resulting in a significant decline in the number of acute-care facilities.

A recently published survey of the State's acute-care hospitals conducted by the NJ Hospital Association revealed some startling statistics:

- Nearly half of the State's hospitals reduced jobs by laying off employees and eliminating vacant positions in 2009.
- One out of three hospitals froze employee wages in 2009.
- About a quarter of the State's hospitals implemented a hiring freeze in 2009.
- Nearly 25% of hospitals curtailed services in 2009, up from 17% in 2008.

In addition, 82% of hospitals said they experienced an increase in charity-care patients in 2009 (an expense for which most hospitals are not adequately reimbursed), and nearly every hospital reported a decline in fund raising and philanthropy to support healthcare initiatives in the community.

Perhaps most telling for members of the construction industry, more than half the State's hospitals said they have delayed building and improvement projects as access to capital tightened and the cost of borrowing funds increased.

"Just like other businesses, hospitals continue to feel the economic pressures of the recession," says NJHA President and CEO Betsy Ryan. "But, unlike other businesses, hospitals can't simply adjust by reducing their output or cutting back on hours. Recession or not, our communities rely on hospitals to deliver essential healthcare services 24/7."

One key indicator of the economic downturn in the life sciences community is the sector's loss of jobs, which slipped below 60,000 in 2009 for the first time in almost a decade. Also, capital expenditures decreased by about 6% between 2008 and 2009, dropping from $1.7 million to $1.6 million. Similarly, research and development spending fell from $7.9 million to $7.5 million – a 5% decline. Product trials currently taking place decreased by almost 15% and medical device trials underwent a steep decline of some 40%.

"There's no question this is a critical time for the healthcare sector and the life sciences," says Hollie Gilroy, director of communications for the Healthcare Institute of NJ. "Not only is New Jersey facing pressure from states like North Carolina, California and Massachusetts in our ongoing efforts to attract and retain companies, but we're seeing more and more mergers and acquisitions within the industry.

"We're grateful Governor Christie has indicated he is committed to assisting our industry and is studying the impact existing regulations and taxation have upon our operations," she continues. "Also, the outcome of the current healthcare reform debate in Washington will help determine where we go from here."

Health of Sector Affects Construction

Because they are such a constant and integrated part of our daily lives and communities, the importance of the healthcare and the pharmaceutical industries to New Jersey's economy extends beyond direct employment and critical services and into the State's construction sector. As representatives of both industries have pointed out, there will always be a need for their products and services, good times or bad, so there will always be a need to upgrade and expand their physical facilities.

This is especially true in the healthcare market where the average age of a hospital plant in New Jersey is 13.4 years, compared to only 10.2 years nationwide. Average hospital facility ages in surrounding states are also lower: Pennsylvania (12.2 years), New York (11.3 years), Connecticut (10.8 years), and Maryland (6.2 years).

As noted earlier, New Jersey hospitals may be delaying needed capital expenditures, but they are not cancelling them. There will be a turning point when new construction and expansion begin again in earnest and indications are it will be sooner than later.

The argument that New Jersey already has an overcapacity of hospital beds is old and dated, according to the NJHA's Betsy Ryan. "In the past few years, nine hospitals closed and six have declared bankruptcy in New Jersey. We have lost

1,500 beds statewide. In the past 20 years, we have lost 30% of our hospitals," she notes. "We now need to focus on ensuring access to care."

Ms. Ryan also disputes the notion of overutilization of services. "It's not true, especially in the economic downturn," she says. "There is uncertainty in the world and people certainly aren't being treated for elective procedures. Conversely, all the unfortunate people who have lost their jobs and don't have health insurance are clogging hospital emergency rooms. They don't have any other option."

The vast majority of hospitals in New Jersey raise the funds needed for equipment, renovations, capital improvements and new facilities by borrowing from the proceeds of bonds and notes issued by the NJ Health Care Facilities Financing Authority (NJHCFFA). The Authority was created by the Legislature in 1972 to ensure healthcare providers with access to low-cost capital.

Since its inception, NJHCFFA has issued more than $14.3 million in bonds for healthcare organizations. It's estimated the Authority finances more than 80% of the long-term debt for New Jersey hospitals and nearly 90% of the State's hospitals have debt outstanding with it. In its 2008 Final Report, the Authority announced a total of $6.6 million on bonds outstanding on behalf of nearly 100 healthcare organizations.

According to Gus Escher, vice chairman of the NJHCFFA, the total a healthcare facility receives in bonded funding includes reserves, fees and other costs. About 90% of the bond issue goes into the ground, the actual "bricks and mortar" projects.

Bond Market Rises, Falls and Rises Again

Following three consecutive years of near-record bond issuances in excess of $800 million (2006-2008), Escher says the auction market for bonds "collapsed" in late 2008. "Suddenly financial institutions were no longer lending money, and the scarce money that was available was being lent at very high interest rates and longer terms," Escher told participants at a Health Care Construction Seminar presented by the NJ Alliance for Action in February of this year.

Escher said the bonds are constantly being turned over with one buyer selling to another after making a small profit. "When financing dried up, so did the auction market. No one was willing to risk buying the bonds from previous buyers for fear they themselves would not be able to unload them. Eventually, no one was willing to buy them in the first place," he continued.

As a result, the NJHCFFA negotiated only two issuances totaling approximately $45 million between August 2008 and May 2009. Surprisingly, the dry spell ended abruptly with the authority's largest single project in its history – a more than $550 million issuance for construction of the huge new Virtua Health System hospital in Voorhees.

Now, with the federal stimulus program beginning to generate new funding from financial institutions at lower rates, Escher is encouraged about the outlook for new hospital construction. "We've never seen anything like we've experienced over the past two years, and I doubt whether we'll see it again," he observes. "We are now back in a more workable situation, and I'm excited about the future.

"We have about $640 million in outstanding, unspent bond proceeds from the past two years, at least $200 million of which should be in the ground this year," Escher details. "Altogether, we already have some $800 million in 'bricks-and-mortar' projects committed for 2010, and it's only February. Things are looking up."

Hopes are further bolstered by the expectation the economic stimulus package will encourage the issuance of tax-exempt bonds by expanding the ability of financial institutions to deduct the interest costs associated with them. The additional reductions could decrease the interest cost of a bond issue by:

•cutting the banks' cost to invest in bonds, thereby potentially lowering the rates they charge borrowers, and
•broadening the pool of banks willing to purchase tax-exempt bond debt.

Green Initiatives Sprout Building Projects

New and developing energy-efficiency techniques and technologies have been another driver of hospital construction in New Jersey. Public Service Electric & Gas and the Board of Public Utilities have been providing medical facilities with funding from stimulus grant money for carbon abatement, power generation and other "green" building initiatives.
To date, federal and state grants have produced up to $130 million in energy-efficient projects and another $40 million is currently available for similar work, according to speakers at the recent Alliance for Action seminar. The Obama administration also announced in December 2009 that New Jersey's healthcare community would receive more than $20 million in federal stimulus money to bolster community healthcare centers in Morris, Ocean and Essex counties.

Not to be outdone, New Jersey-based biopharmaceutical and medical technology companies also make substantial investments each year in the construction of new buildings and the renovation and maintenance of existing buildings – nearly $1.5 million in capital construction in 2008. The projects generated a total of $36.6 million in state taxes and another $40.1 million in local taxes.

In all, capital investment by the industry in 2008 generated an estimated 12,536 jobs, more than 45% of which were in construction and the remainder in support industries, including manufacturing and wholesale and retail trade. Economists say jobs created in the construction industry average salaries of $64,000 a year, higher than the State's average of $57,000.

"The industry's investment in new and existing buildings is having a significant economic impact throughout central New Jersey," observes Michael Lahr, a professor at the Rutgers University Center for Urban Policy Research. "This is especially true of Middlesex, Somerset and Union counties, where the majority of the pharmaceutical industry's construction and renovation work in the State tends to be concentrated."

New Jersey's Competitive Advantage

While the industry may be growing at a faster rate in other states than in New Jersey, the Garden State still contains the greatest concentration of firms and plants and is likely to do so for the foreseeable future. Industry spokespersons attribute this to various factors, including: a) the availability of scientific talent needed to commercialize and manage current research and development projects; b) the opportunity for collaborating with academic institutions and other industry laboratories within the State; and c) access to leading construction and construction management firms that recognize the life-sciences sector as a primary market, and who have the technical expertise to construct and fit-out new complexes and execute lab renovations.

"Many pharmaceutical corporations will only retain construction professionals who have a proven track record for safety, who know Good Laboratory Practices (cGLP) and Good Manufacturing Practices (cGMP) and who can build to FDA and International Society of Pharmaceutical Engineers standards," one industry official was quoted in an article for New Jersey BUSINESS Magazine.

Mindful of the $3.2 million that the industry expects to invest in capital projects over the next two years, HINJ President Bob Franks states: "There is always a necessity on the part of life-sciences companies to constantly upgrade, renovate and build new facilities to promote R&D functions. This is an industry that will never stop investing in its capital programs because it is necessary to keep pace with the evolving science."

Hospitals Stand Alone, Work Smarter

Meanwhile, hospitals with adequate credit capacity will be the most successful as the enormous pent-up demand for new capital construction is slowly released by a recovering economy. "Hospitals need to accurately quantify between their wants and needs, set clear and accurate cost estimates, and establish a master plan that ties their current building plans into their long-term needs," says Scott Kobler, a partner with the law firm of McCarter & English who specializes in healthcare legal matters and economics.

Al Gutierrez, president and CEO of Shore Memorial Hospital in Somers Point, NJ, advises contractors and others who want to promote their services to a particular hospital to study the strategic posture of the facility. "Each hospital has different needs when it comes to their specific locations and structural needs, the employment and housing of physicians, and their links to the community," says Gutierrez, whose facility is undertaking the construction and equipping of a new four-story surgical addition. "You must assume there will be no financial windfall for the hospital industry, regardless of the outcome of the current healthcare reform debate, and that ultimately most hospitals will have to be able to stand alone and operate independently."

In a recent newspaper interview, Ronald Del Mauro, CEO of the St. Barnabas Health Care System (SBHCS), noted the multi-hospital system is affected on a daily basis by factors ranging from investment income to New Jersey's overall financial strength. "Most hospitals are not only the premier provider of health care in the community, but the economic engine of the community," Del Mauro commented. "St. Barnabas Health Care System is the second-largest private employer in New Jersey. We balance our commitment to delivering care to two million patients and keeping 20,000 people gainfully employed.

"There are very serious challenges. There have been cutbacks in charity-care reimbursement, and what is coming out of Washington, DC will affect (everything)," Del Mauro continued. "As far as our ability to run an effective operation, getting through one year is relatively easy, but looking at five to ten-year horizons *you have to invest capital in your facility* to be the best environment for patients, doctors and everybody."

The consensus among healthcare representatives and experts in New Jersey seems to be the time is ripe for a gradual reversal of the economic doldrums that have besieged the industry over the past few years. Many of the State's endangered or dysfunctional hospitals have been closed or merged, and those that remain are devising and implementing strong administrative and operational efficiencies.

With fewer plants dotting the healthcare landscape, along with the elimination of excess beds, the constant introduction of cutting-edge technologies and the loosening of available financing, there will be an inevitable need for new and expanded facilities – something that bodes well for the economy and New Jersey's construction community.