KaufmanHall

Financial and Operational Impacts on Tennessee Hospitals Since the Onset of the Pandemic

Winter 2023

Agenda

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2. Tennessee Hospital Profitability Overview
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4. Tennessee Hospital Revenues Overview
5. Tennessee Hospital Volumes Overview
6. Tennessee Hospital Post-Acute Performance Overview
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1. Executive Summary

Tennessee Hospital Finances: The Financial Impact of the Pandemic

Since the onset of the COVID-19 pandemic in March 2020, Tennessee hospitals and health systems have taken unprecedented steps to care for their communities amid significant pressure on staff and resources.

The financial impact of the pandemic has been staggering. As hospital executives, policymakers, and other healthcare leaders assess the landscape, key findings on the financial state of Tennessee hospitals from the beginning of the pandemic through December 2022 include:

- **Margins remained depressed relative to pre-pandemic levels.** Throughout 2022, the median margin for Tennessee hospitals remained negative, nearing the worst financial performance since the start of the pandemic.
- **Expenses were significantly elevated from pre-pandemic levels.** Total expenses in 2022 for Tennessee hospitals were $3.2 billion higher than pre-pandemic levels, outpacing increases in revenue. Rising expenses for both labor and medical supplies contributed to the increase.
- **Hospital volumes remained below pre-pandemic levels.** Hospital discharges, emergency department visits, and operating room minutes in Tennessee hospitals were significantly lower than pre-pandemic levels. However, a rise in patient days in 2021 and 2022, coupled with a significant increase in the average patient length of stay over the same time period, suggests that patients visiting hospitals had more severe health needs than prior to the pandemic. Furthermore, labor shortages in post-acute settings likely prevented timely discharge of patients from the hospitals, leading to an increase in expense without a commensurate increase in revenue.
- **Hospitals experienced a profound financial toll, with no further relief in sight.** Hospitals incurred serious losses—including approximately $500 million in 2022—increasing financial strain on Tennessee hospitals which had faced net losses even prior to the pandemic.

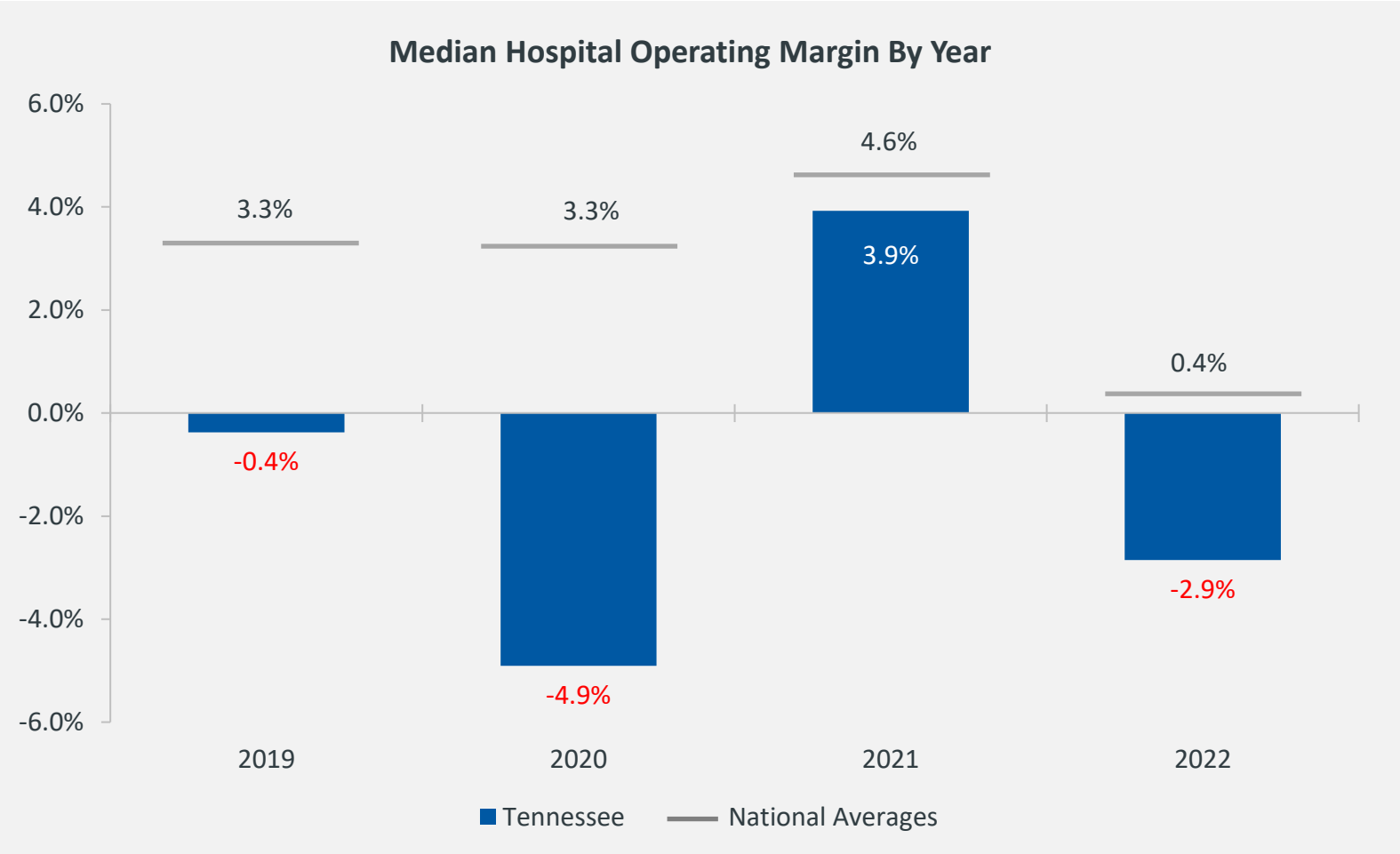
Hospitals faced a host of other related challenges, including workforce shortages and supply disruptions.

These findings underscore the existential financial and operational threats Tennessee hospitals continue to face three years after the beginning of the pandemic.

This report was prepared at the request of the Tennessee Hospital Association.

2. Hospital Profitability

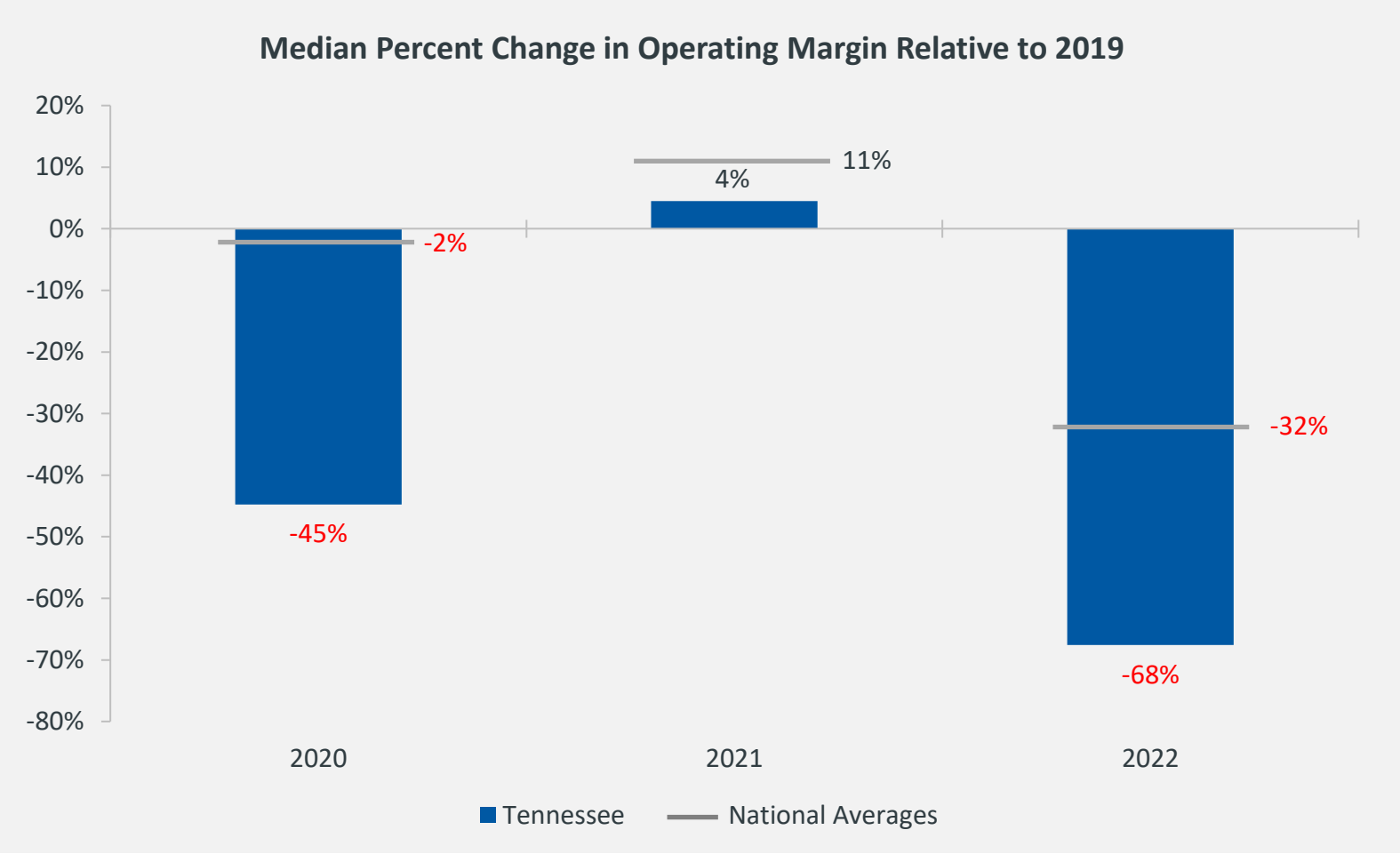
Hospital Operating Margins in 2020 and 2022 Were Significantly Depressed Relative to Prior Years



KEY TAKEAWAYS

- Operating margins in Tennessee in 2022 and 2020 were significantly below pre-pandemic levels. The challenges from 2022 are expected to persist into 2023.
- Operating margins in Tennessee increased in 2021 as a result of CARES Act support. However, this support was only temporary.

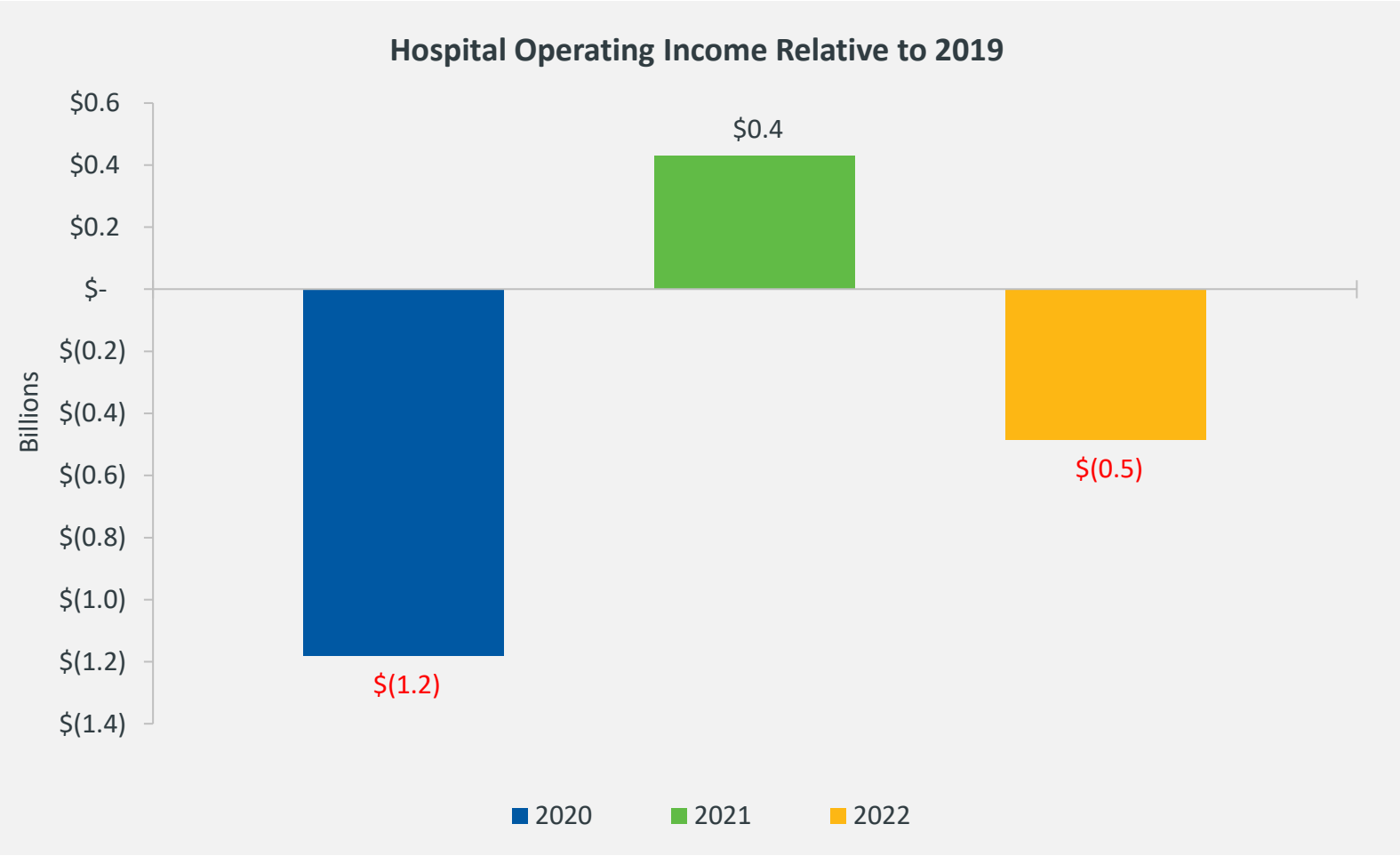
Hospital Operating Margins Fell by a Median of 68% from Pre-Pandemic Levels in 2022



KEY TAKEAWAYS

- Operating margins for Tennessee hospitals have been under intense pressure since the beginning of the COVID-19 pandemic.
- Compared to pre-pandemic levels in 2019, 2022 was incredibly challenging, with margins down 68% from pre-pandemic levels.

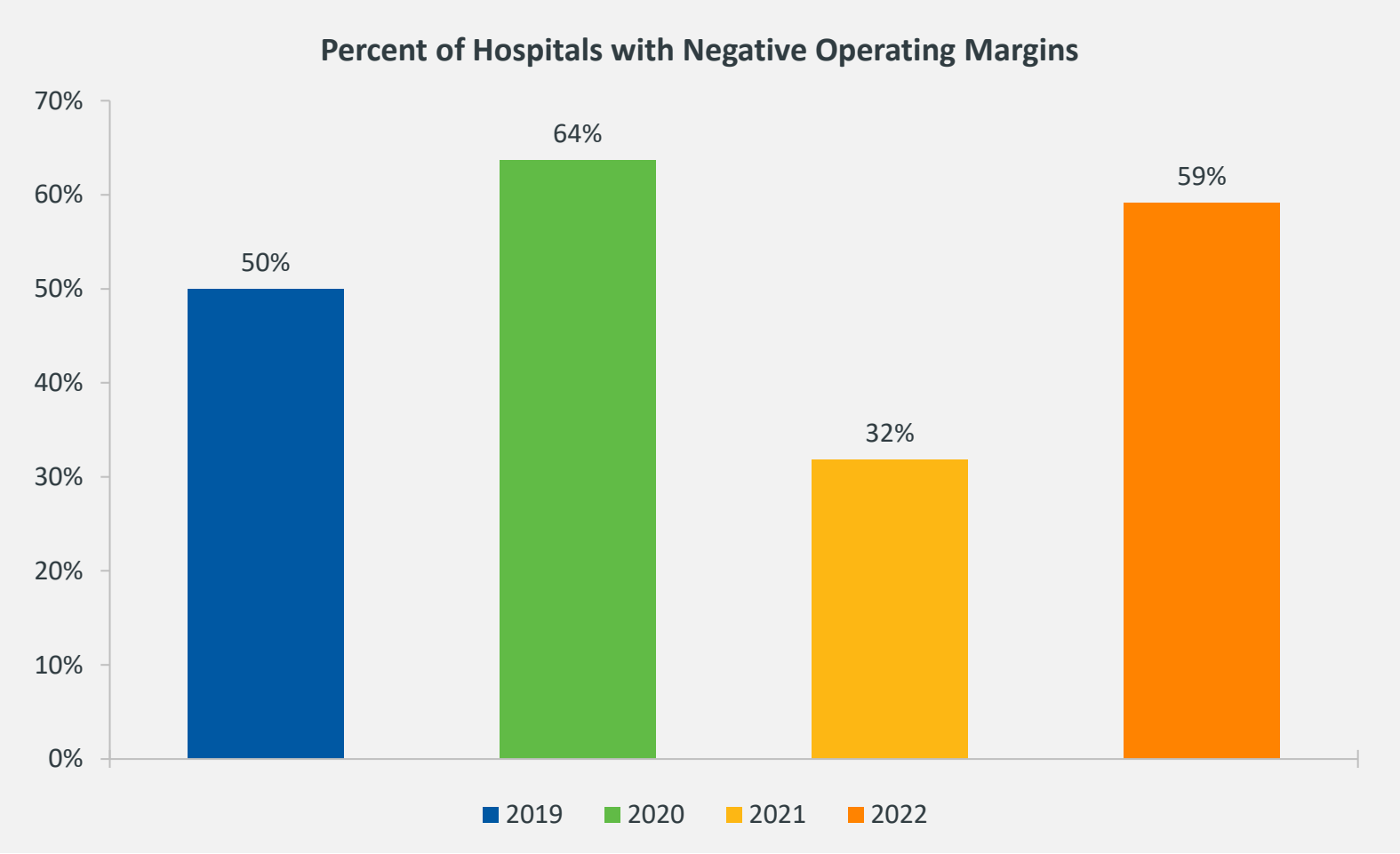
Hospitals Generated Extreme Losses in Income in 2020 and 2022 Relative to 2019



KEY TAKEAWAYS

- Tennessee hospitals lost nearly $500 million in income 2022 relative to 2019, in addition to $1.2 billion in lost income in 2020 compared to 2019.
- Although hospitals' income improved in 2021, losses in 2022 reversed the gains.

More Than Half of Tennessee Hospitals Experienced Negative Operating Margins in 2022



KEY TAKEAWAYS

- More than half of Tennessee hospitals experienced negative margins in 2022.
- Even under pre-pandemic conditions, nearly 50% of hospitals operated with negative margins, highlighting the tenuous nature of hospital finances.

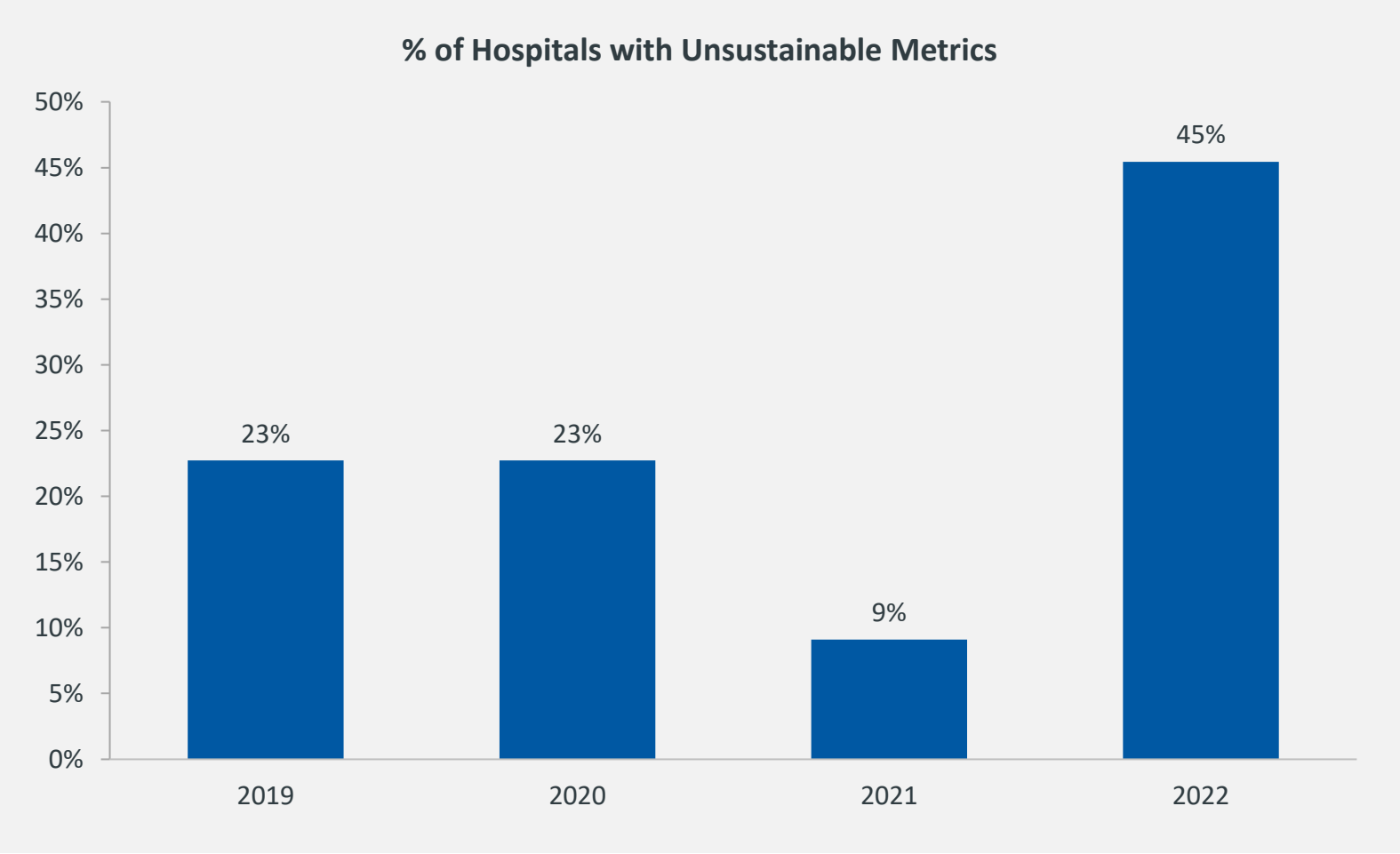
The Risk of Closure for Tennessee Hospitals is the Highest Since the Beginning of the Pandemic

METRIC	TREND	DETAILS
Days Cash On Hand (DCOH)		Decline in DCOH since 2020, with the median down 40%
Debt-to-Capitalization Ratio		Increase in debt ratios since 2020 by 6-10%, with some systems nearing 50% debt-to-capitalization
Operating Margins		Prolonged negative operating margins in 2020 and 2022 have eroded performance

KEY TAKEAWAYS

- Tennessee hospitals have had unfavorable trends for all three key metrics determining the likelihood of closure.
- Debt loads generally appear to be manageable, but they are trending negatively.
- As days cash on hand (DCOH) erodes, debt-to-capitalization rises, and operating margins remain negative, the risk of closure of hospitals increases significantly.

The Risk of Closure for Tennessee Hospitals is the Highest Since the Beginning of the Pandemic

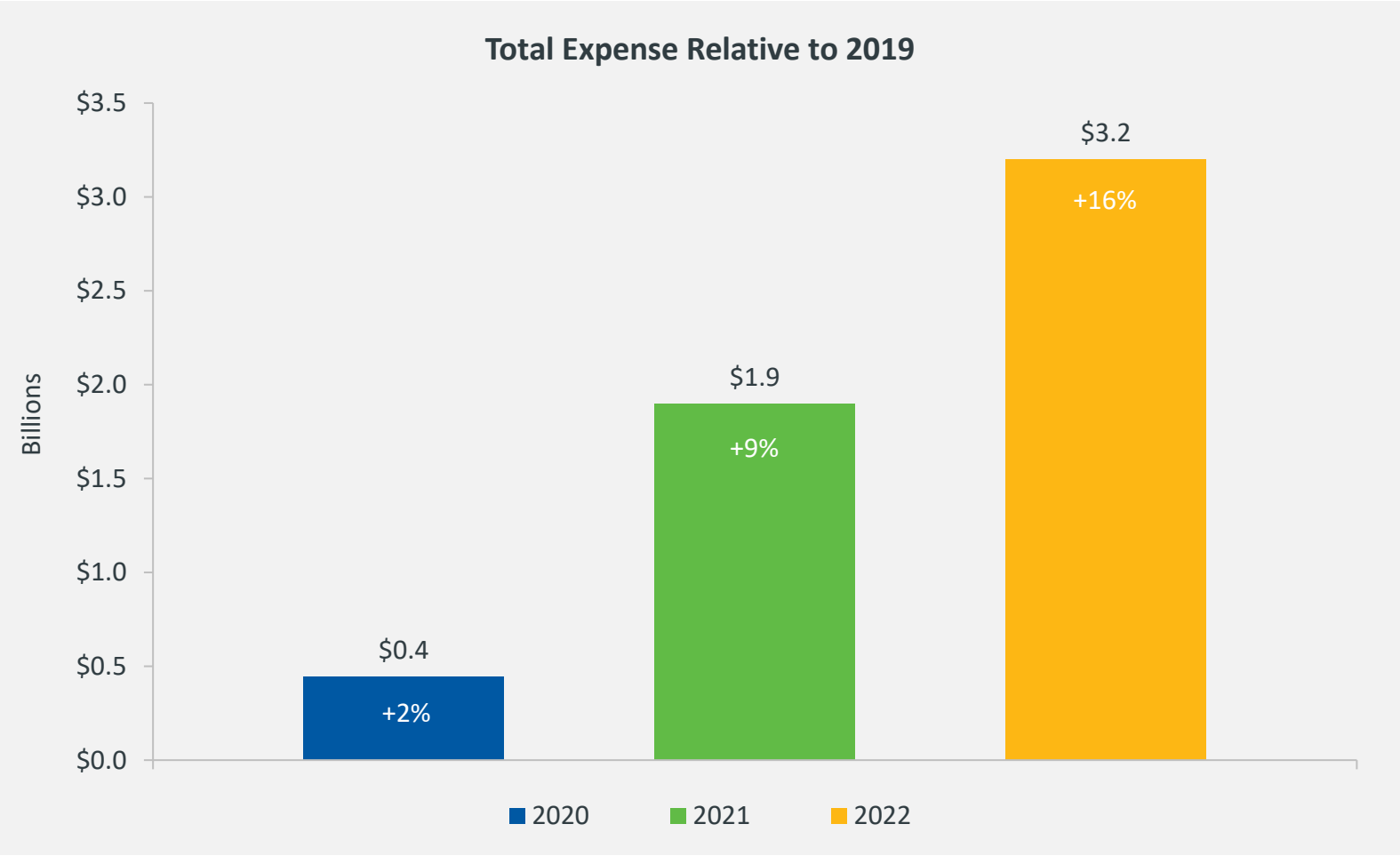


KEY TAKEAWAYS

- Tennessee hospitals have had a higher risk of closure every year since the start of the pandemic with the exception of 2021, when slight improvements in margin and stimulus funds reduced the risk.
- This risk does not reflect imminent closure, but highlights risk due to unsustainability of operations.
- The vast majority of hospitals at risk of closure in Tennessee are rural hospitals, though urban hospitals have also been stressed and are at a higher risk than pre-pandemic levels.

3. Operating Expenses

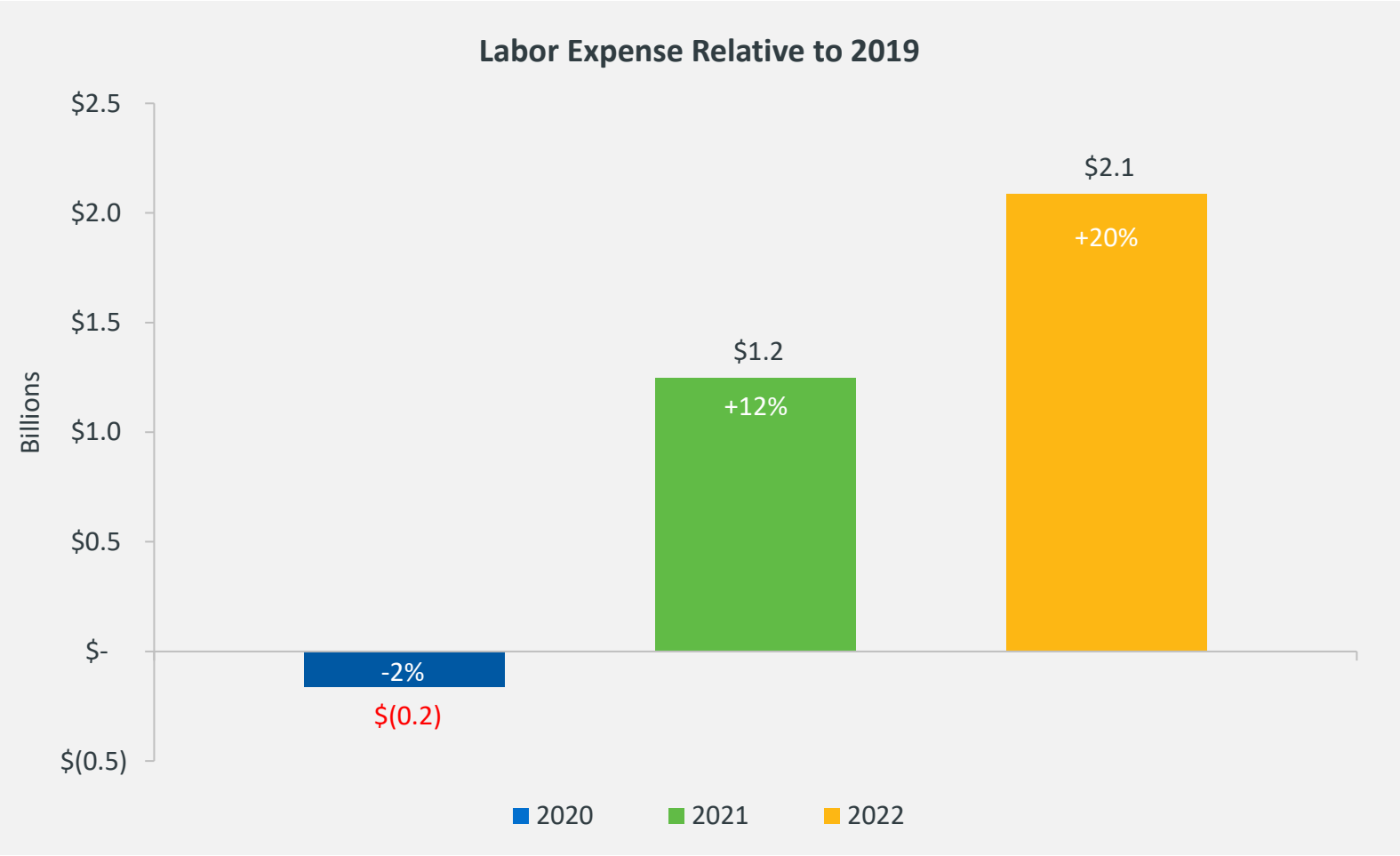
Total Expenses Were Dramatically Higher Than Pre-Pandemic Levels



KEY TAKEAWAYS

- Total hospital expenses in Tennessee skyrocketed every year since 2019.
- In 2022 alone, expenses were $3.2 billion above pre-pandemic levels.
- Key factors include rising labor costs, including contract labor expenses, drug expenses and non-labor expenses.

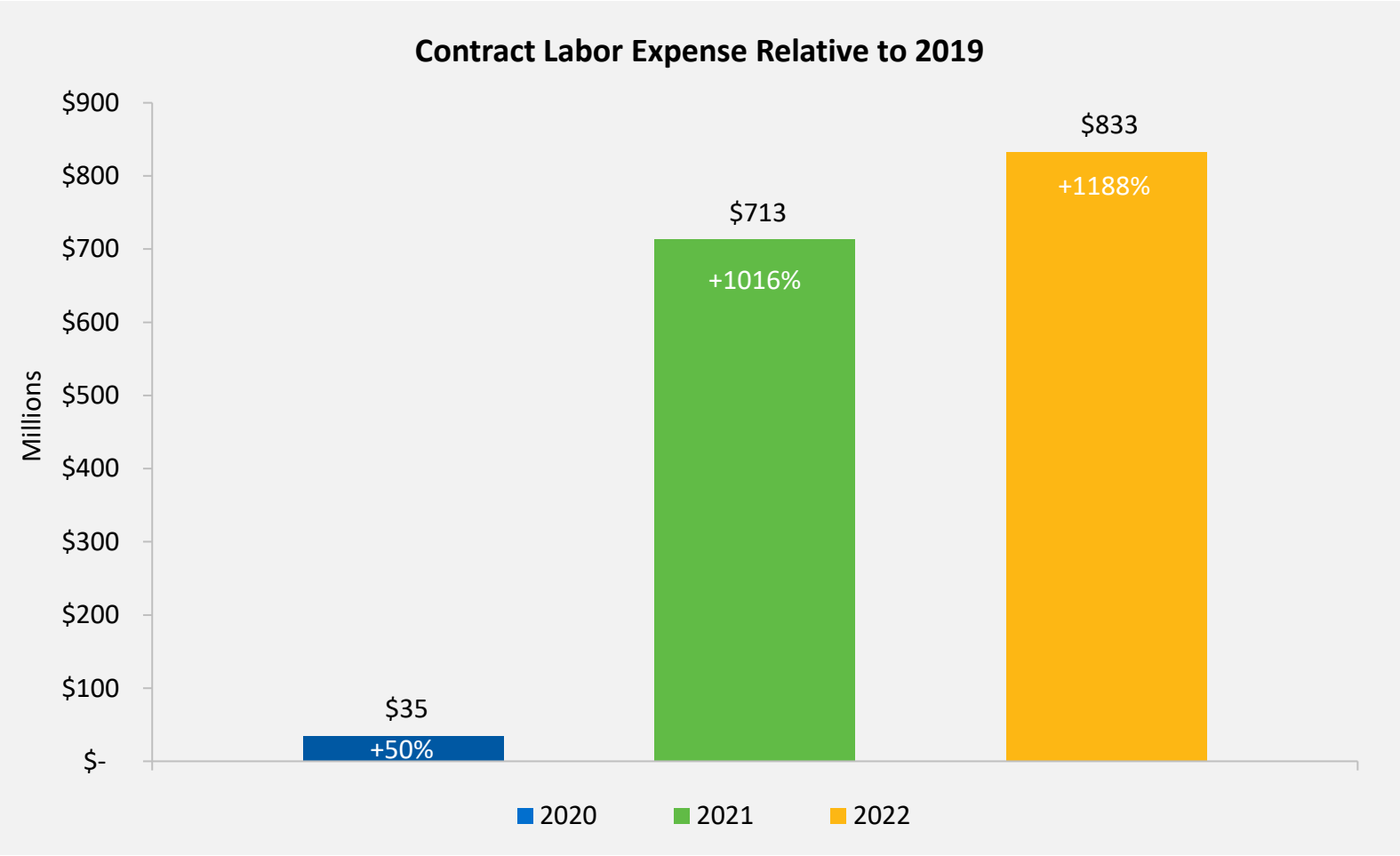
Labor Expenses Have Increased Significantly Since the Pandemic Began



KEY TAKEAWAYS

- Due to increased staffing and contract labor expense, total labor expenses for Tennessee hospitals were $2.1 billion higher than in 2019.

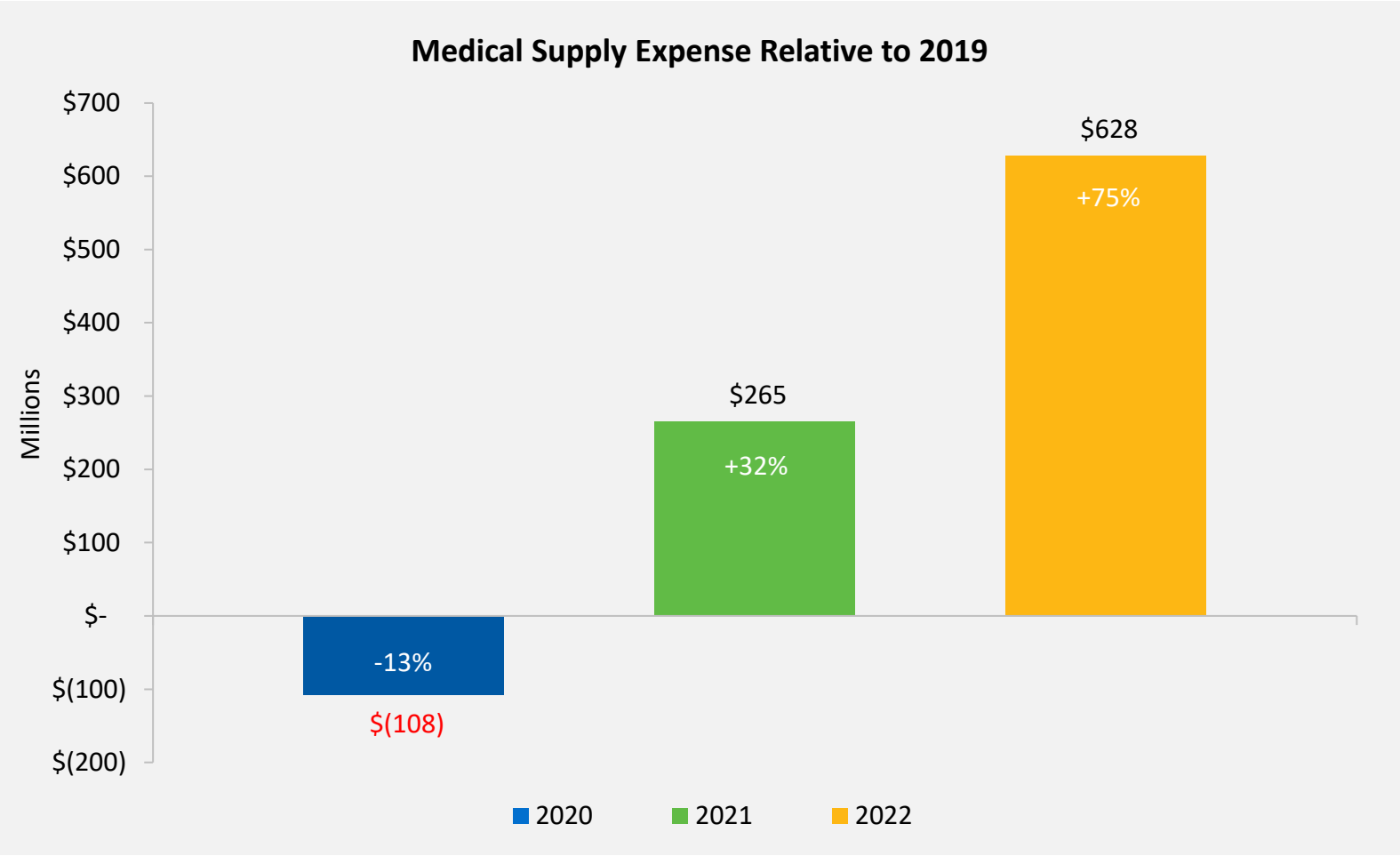
Contract Labor Expenses Grew Significantly and Were a Major Contributing Factor to Higher Labor Expenses



KEY TAKEAWAYS

- Compared to pre-pandemic levels, contract labor costs for Tennessee hospitals rose dramatically due to increased reliance on more expensive contract labor.
- Despite comprising a small proportion of total hours, growth in contract labor expense comprises nearly 40% of the growth in total labor expense in 2022.

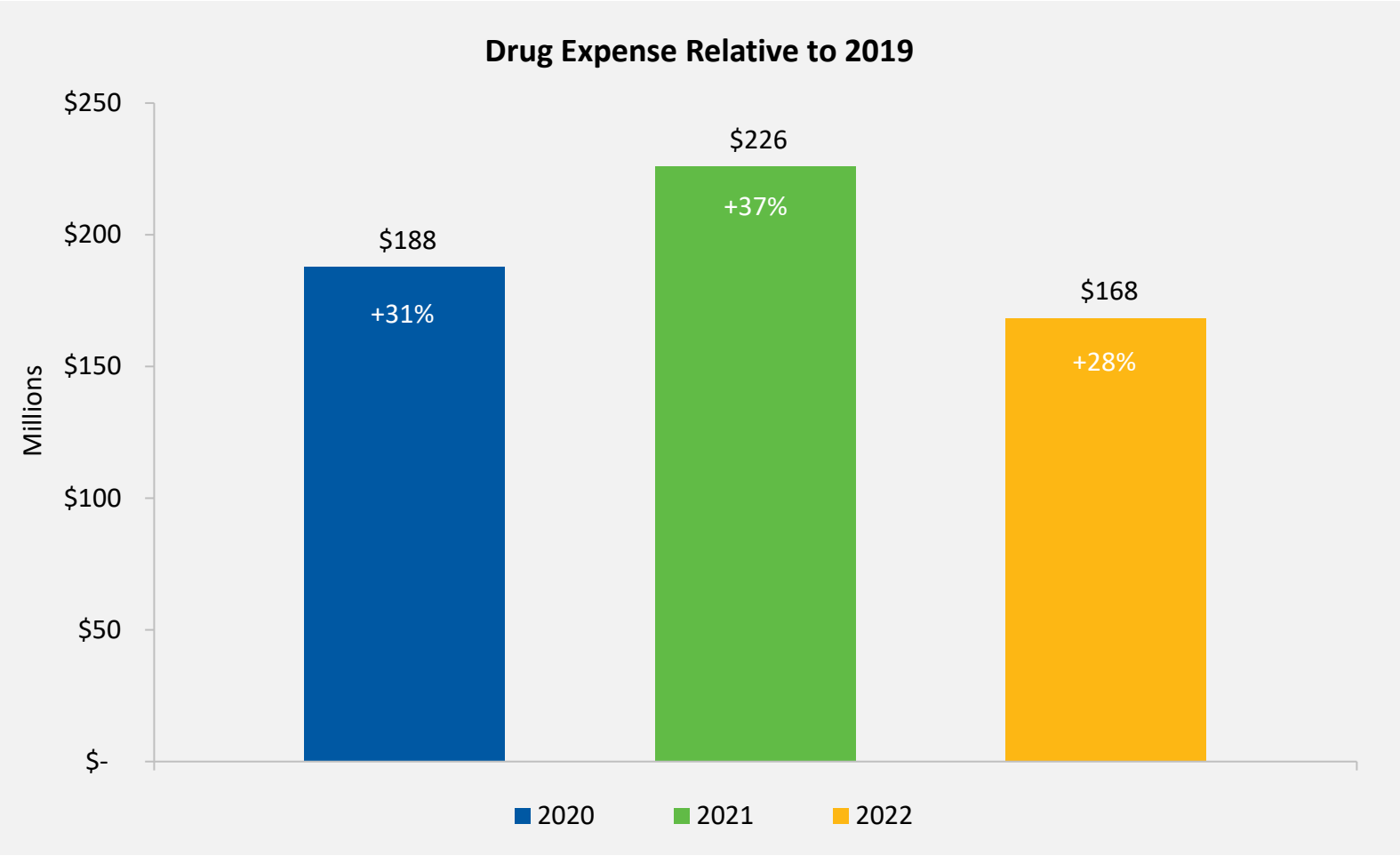
Medical Supply Expenses Also Remained Elevated



KEY TAKEAWAYS

- Medical supply costs—which were $628 million higher in 2022 and $265 million higher in 2021—have had a significant impact on Tennessee hospitals' overall expense growth since the start of the pandemic.

Drug Expenses Remained Highly Elevated

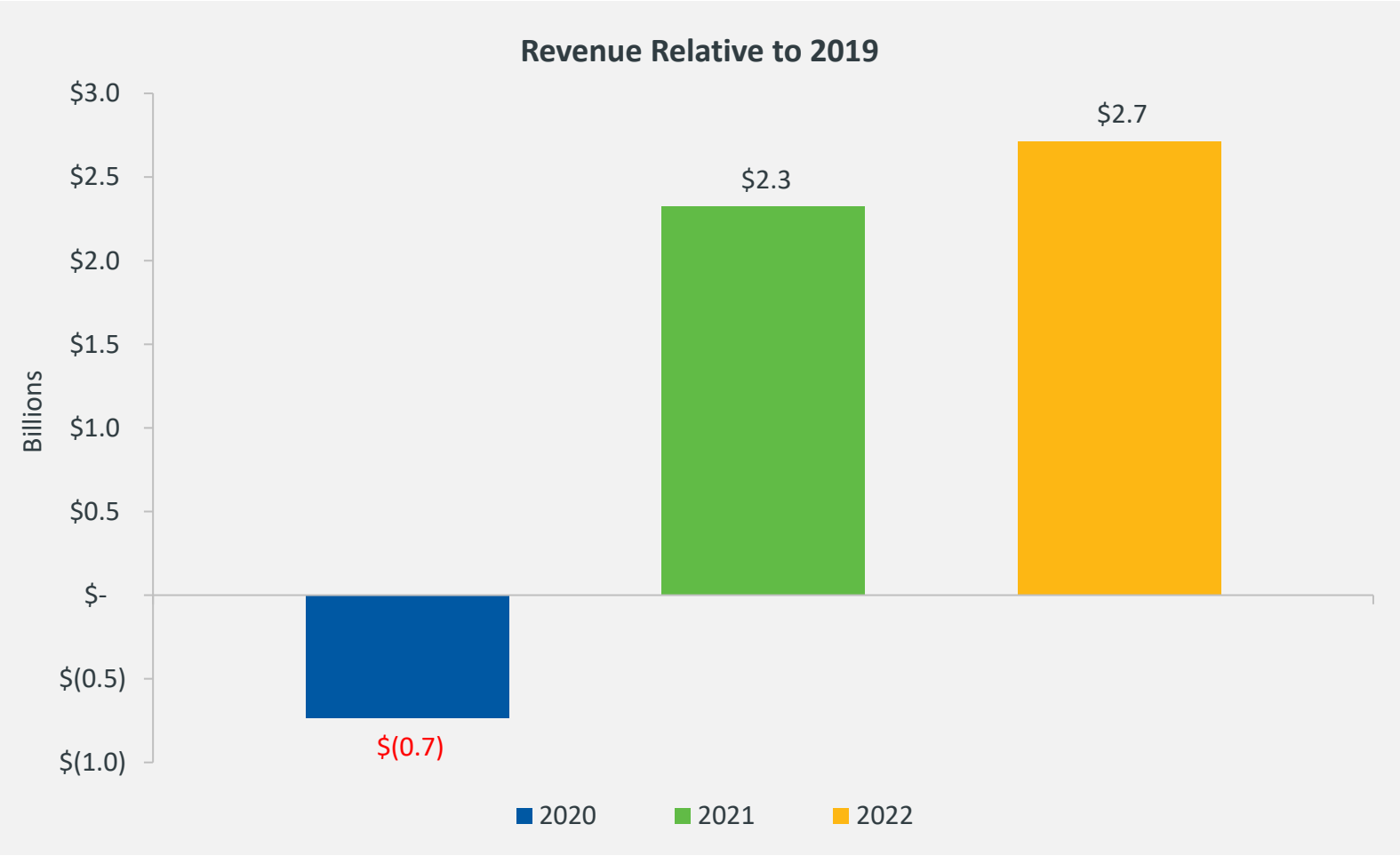


KEY TAKEAWAYS

- Drug expenses have grown significantly for Tennessee hospitals since the start of the pandemic.

4. Operating Revenues

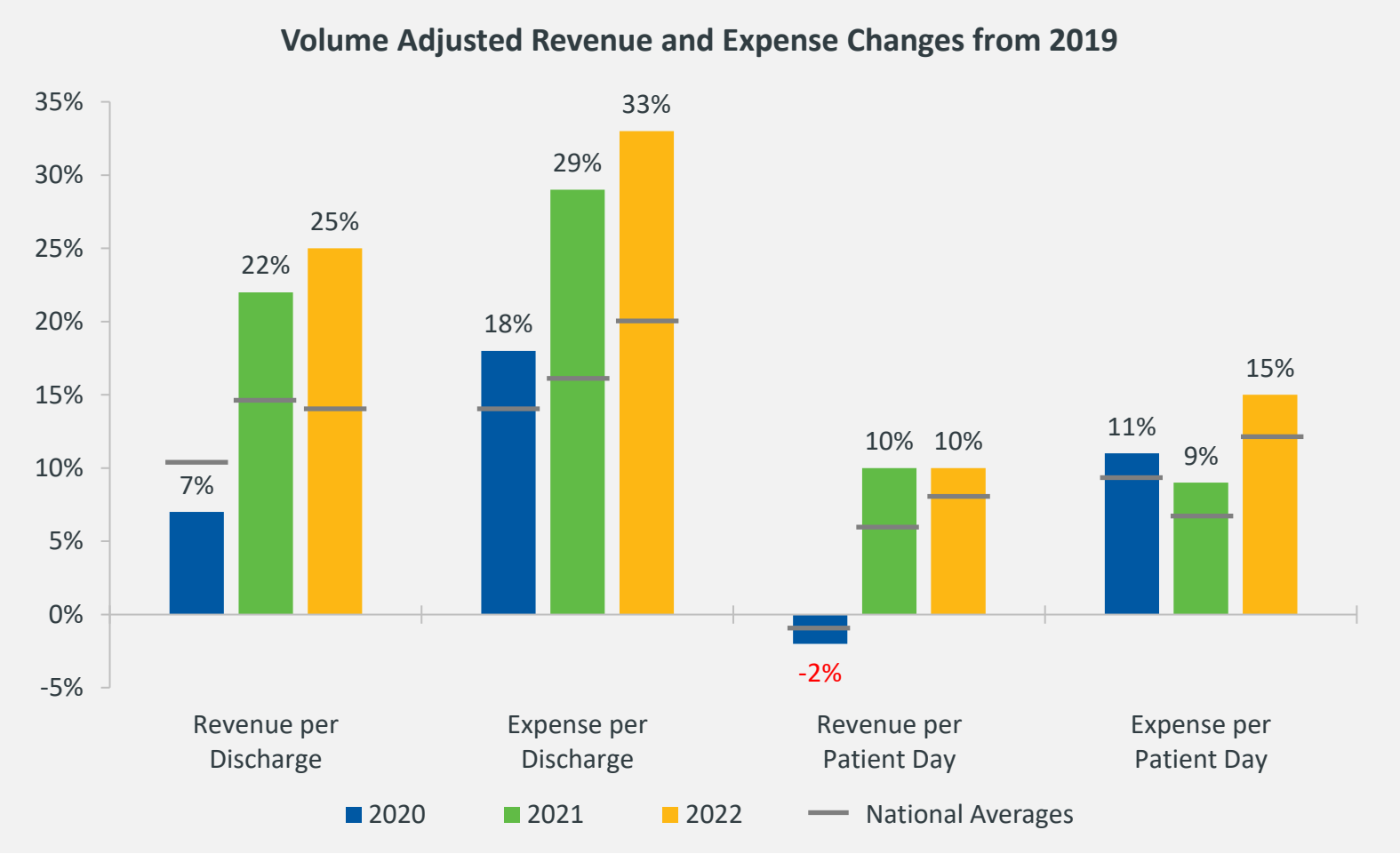
Revenue Growth Lagged Expense Growth



KEY TAKEAWAYS

- While Tennessee hospital revenues have grown since the start of the pandemic, the rate of growth has significantly lagged the rate of growth in expenses.
- The difference in growth rates between expenses and revenues has led to significantly depressed margins for Tennessee hospitals.

Expense Rose More Than Revenue in 2022 on a Volume Adjusted Basis

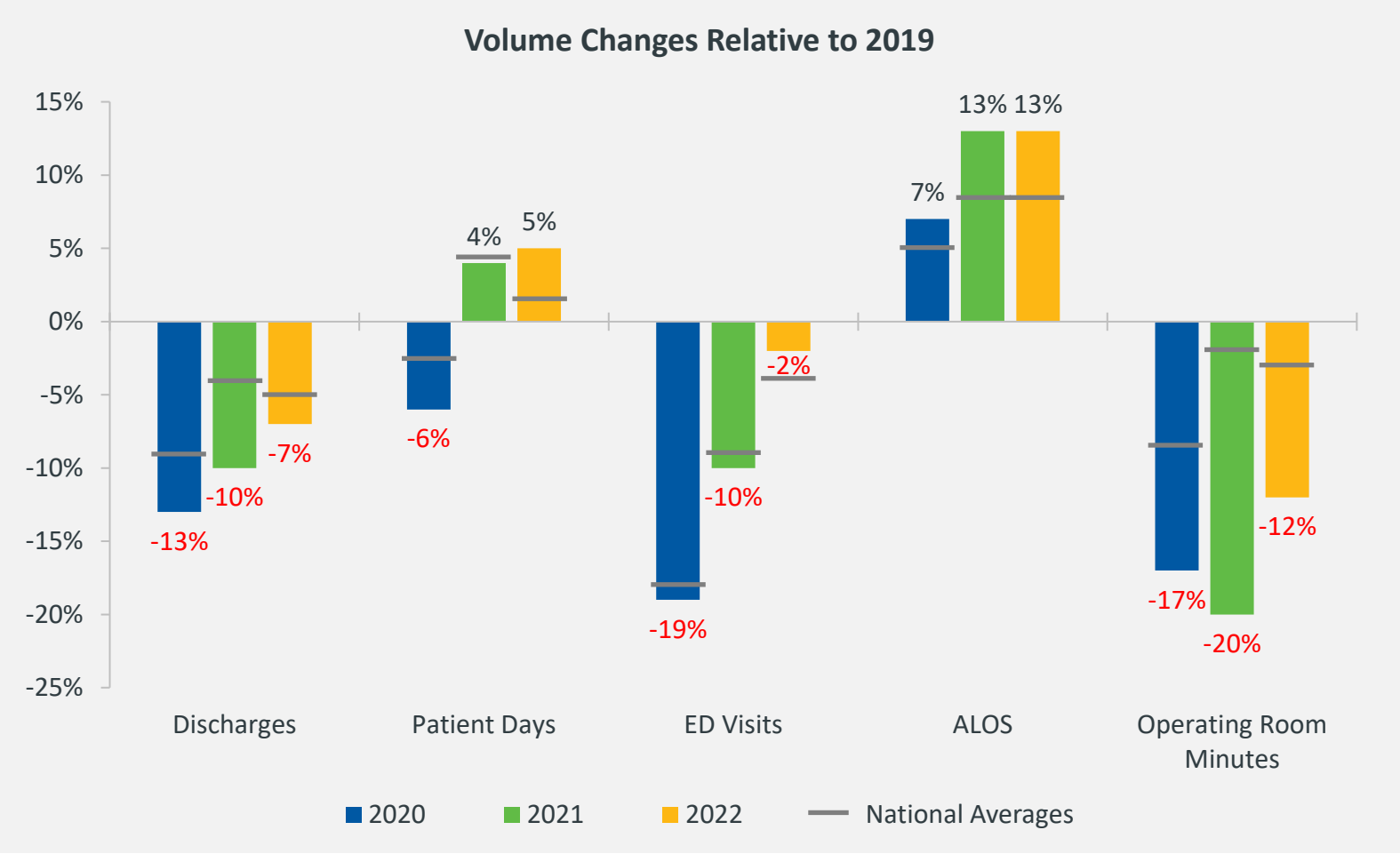


KEY TAKEAWAYS

- While revenues and expenses have increased relative to pre-pandemic levels, expenses in 2022 rose more than revenues, leading to the decline in operating performance.
- Expense per discharge was dramatically higher than expense per patient day, both of which outpaced revenue growth due to sicker patients, and longer lengths of stay caused by post-acute care labor shortages.

5. Volumes

Volumes Declined Overall, While Average Length of Stay and Patient Days Increased

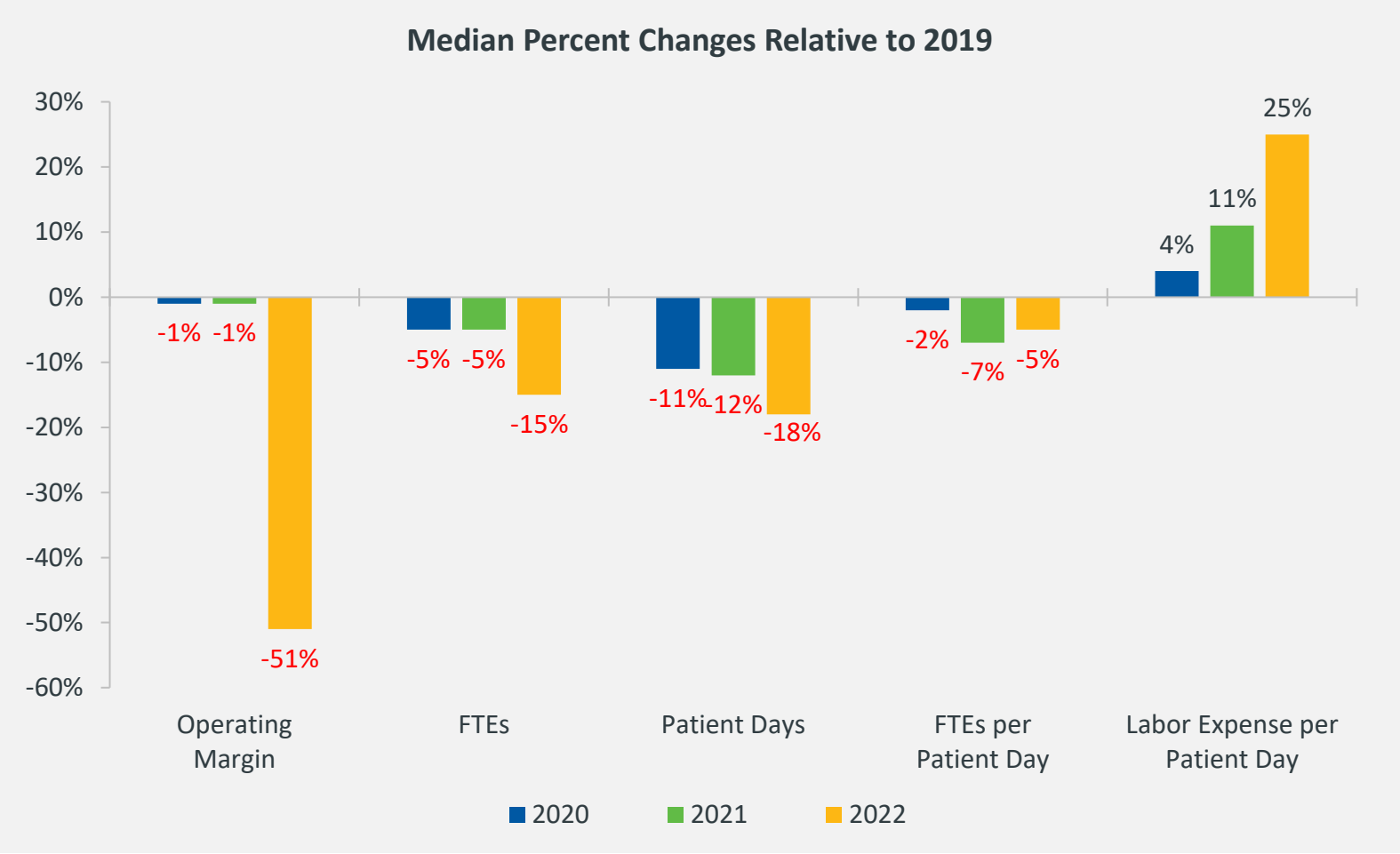


KEY TAKEAWAYS

- Overall, hospital discharges, ED visits, and operating room minutes in Tennessee hospitals were significantly lower than pre-pandemic levels in 2022, as care continued to shift out of the hospital.
- Both patient days and average length of stay increased in 2022, further stressing hospital finances.

6. Post-Acute Performance

The Performance of Post-Acute Facilities Decreased Significantly Relative to 2019 Nationally



KEY TAKEAWAYS

- As a result of a decline in revenue and an increase in expenses, operating margins declined 51% in 2022 relative to 2019 in post-acute sites of care.
- Post-acute sites of care face significant labor shortage challenges, with FTEs dropping 15% from pre-pandemic levels.
- While FTEs, FTEs per patient day, and patient days decreased in comparison to 2019, labor expense per patient day increased across all years.
- The primary driver of operating performance decline is due to labor shortages, which is constraining capacity and reducing volume and revenue, and also leading to elevated wages and expenses.

7. Methodology

Methodology

- This report includes data representing all Tennessee hospitals, with more than 25 Tennessee hospitals sampled from Syntellis Performance Solutions.
- Data points calculated in terms of dollars ($) reflect actual gains or losses relative to 2019 levels. All other data points reflect the median percent change relative to 2019 or the median value for the underlying metric.
- Extrapolated figures are computed by applying median year-over-year percent changes to total 2019 revenue and expense values from Definitive Health for Tennessee.
- All revenue and income figures are inclusive of Coronavirus Aid, Relief, and Economy Security (CARES) Act funds. While we are not able to remove CARES Act funds for all time periods based on a lack of standardized CARES Act accounting methods, overall, CARES Act funding is significantly accretive for hospital performance in 2020 and 2021.
- The post-acute analysis is derived from 195 entities inclusive of skilled nursing facilities (SNFs), Home Health, Home Care, Rehab, Nursing Homes, and long-term acute care hospitals (LTACHs), and is representative of the national composition of these entities.

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