

***KaufmanHall***



# **The Financial Impact of COVID-19 on Georgia Hospitals – A New Normal**

April 2023

# Agenda

1. Executive Summary of Findings
2. Georgia Hospital Margin Overview
3. Georgia Hospital Expense Overview
4. Georgia Hospital Revenue Overview
5. Georgia Hospital Volume Overview
6. Georgia Hospital Balance Sheet Overview
7. Methodology

# Executive Summary

# The Financial Impact of COVID-19 on Georgia Hospitals – A New Normal

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

The financial impact of the pandemic has been staggering. As hospital executives, policymakers, and other healthcare leaders assess the current landscape, this summary highlights key findings about the financial state of Georgia hospitals from the beginning of the pandemic through December 2022:

- **Margins remained depressed relative to pre-pandemic levels.** Throughout 2022, the hospital operating margin for Georgia 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 Georgia hospitals were \$7 billion higher than pre-pandemic levels, outpacing increases in revenue. Rising expenses for labor, medical supplies, drugs, and purchased services have contributed to the increase. Hospitals are dealing with the same inflationary pressures as other businesses without the same capability to pass along cost increases to payers.

- **Hospital ED visits remained below pre-pandemic levels.** Hospital discharges and emergency department visits in Georgia hospitals were lower than pre-pandemic levels. However, a significant rise in length of stay suggests that patients who visited 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 relative to pre-pandemic levels—including approximately \$125 million in 2022—increasing strain on Georgia hospitals and their need for additional support.

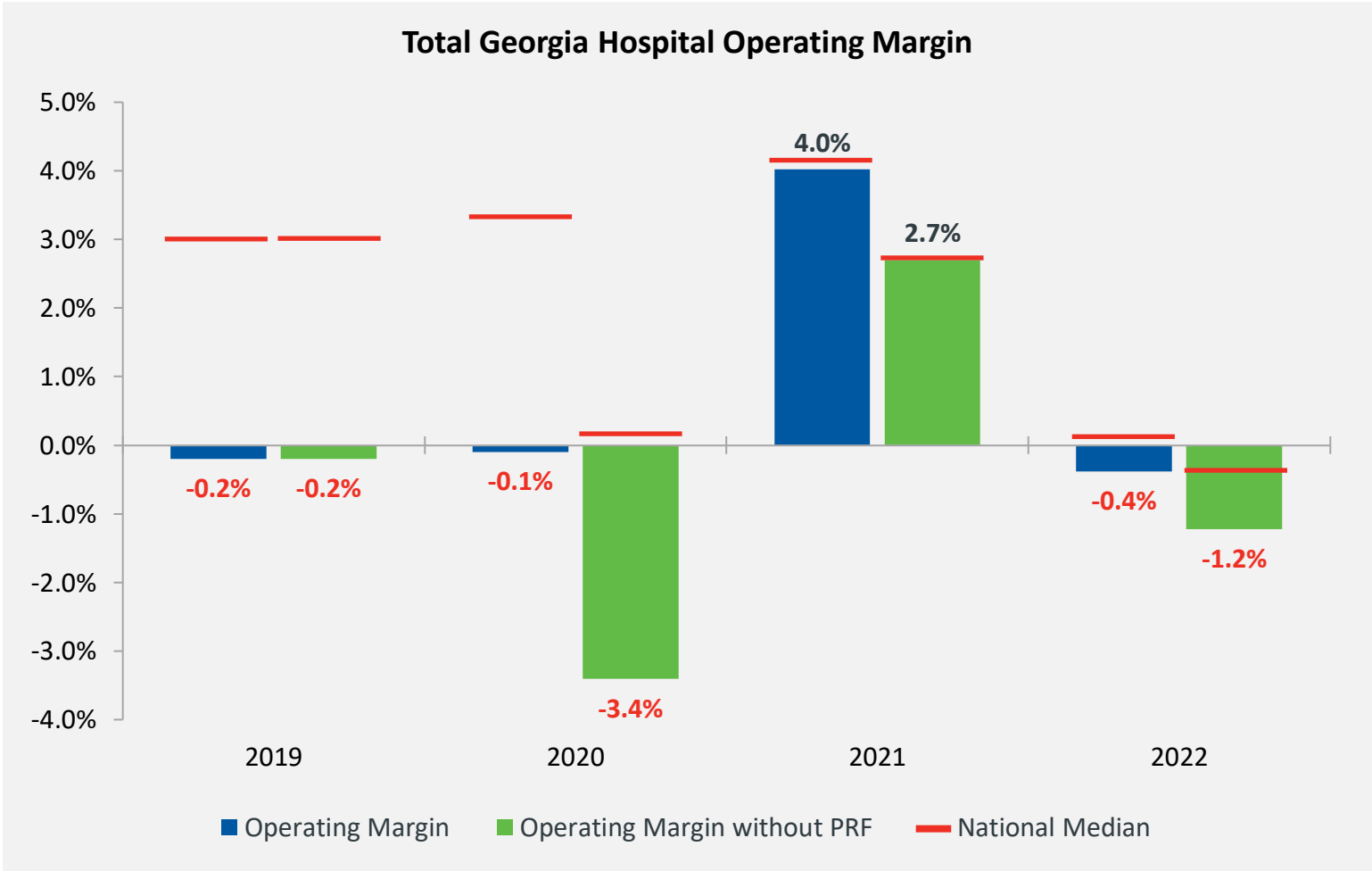
Hospitals faced a host of other related challenges, including workforce shortages and supply disruptions.

These findings underscore the existential financial and operational threats Georgia hospitals continue to face two and a half years after the beginning of the pandemic.

*This report was prepared at the request of the Georgia Hospital Association.*

# Hospital Margins

# Hospital Operating Margins in 2022 Were Below Pre-Pandemic Levels

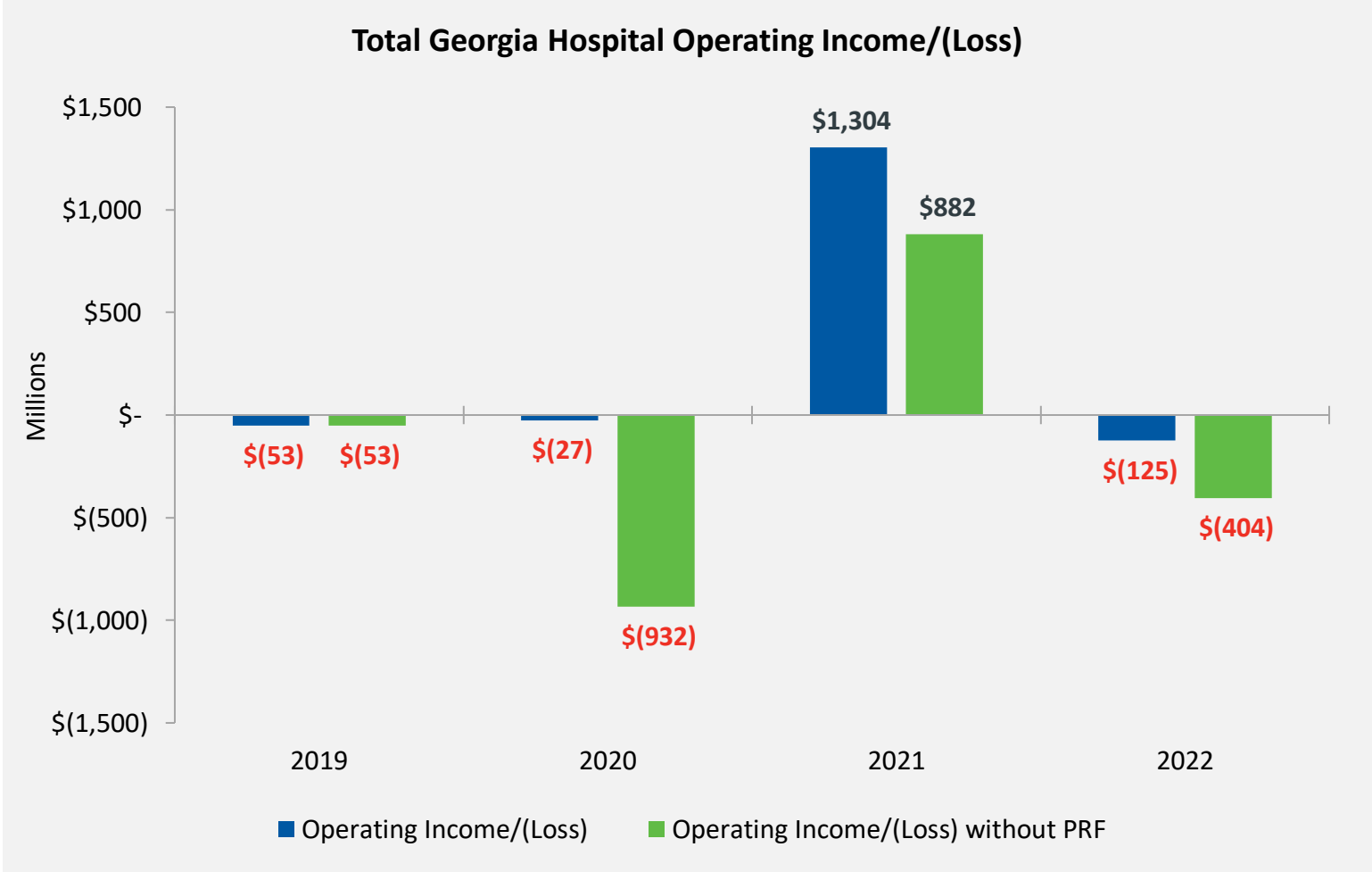


## KEY TAKEAWAYS

- Total hospital operating margins for Georgia in 2022 were below pre-pandemic levels.
- Without payments from the provider relief fund (PRF), Georgia operating margins were even more depressed, falling to -3.4% in 2020 and -1.2% in 2022.
- **Except for 2021, the hospital operating margin for the state of Georgia was below the national median each year.**
- At the median, hospital operating margins in 2022 were 3% lower compared to pre-pandemic levels.

Source(s): 1) Georgia hospital operating margins were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

# Georgia Experienced Negative Hospital Operating Income in 2022 and Losses Exceeded Those in 2019

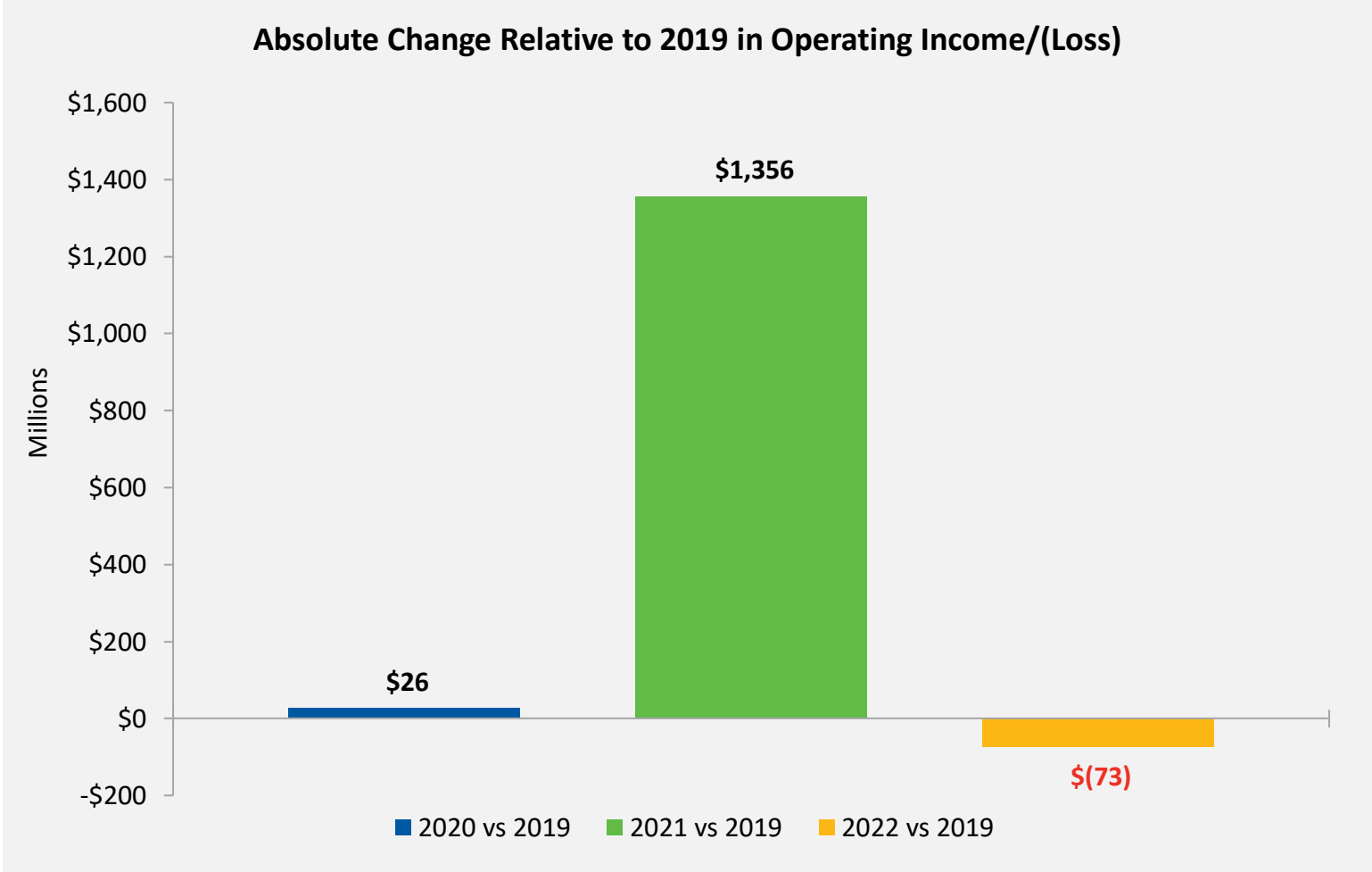


## KEY TAKEAWAYS

- In 2022, Georgia hospitals lost \$125 million and \$404 million without PRF payments.
- Compared to 2020 and 2021, Georgia hospitals received less funding from the PRF in 2022, resulting in negative hospital operating income for the state.

Source(s): 1) Georgia hospital operating income/(loss) was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

# Total Georgia Hospital Operating Income in 2022 Was \$73 Million Below Pre-Pandemic Levels



## KEY TAKEAWAYS

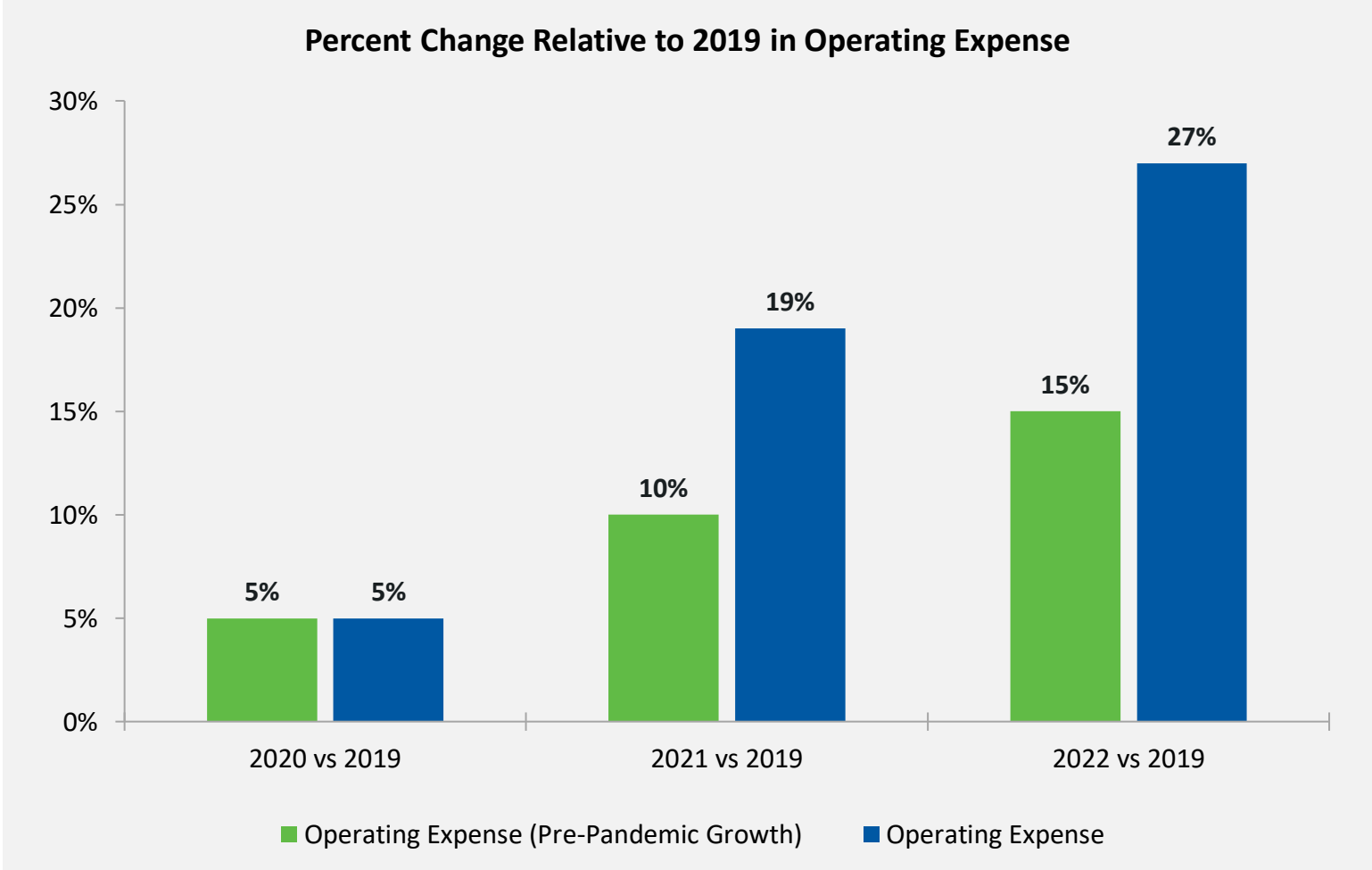
- Georgia hospital operating income/(loss) has still not recovered to pre-pandemic levels.
- In the three years combined following the start of the pandemic, Georgia hospitals have gained a collective \$1.3 billion compared to 2019 levels. However, much of that gain can be attributed to the \$1.6 billion that Georgia hospitals received from the provider relief fund.

Source(s): 1) Absolute change in Georgia hospital operating income/(loss) was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.



# Operating Expenses

# Total Georgia Hospital Operating Expense Increased 27% Above Pre-Pandemic Levels

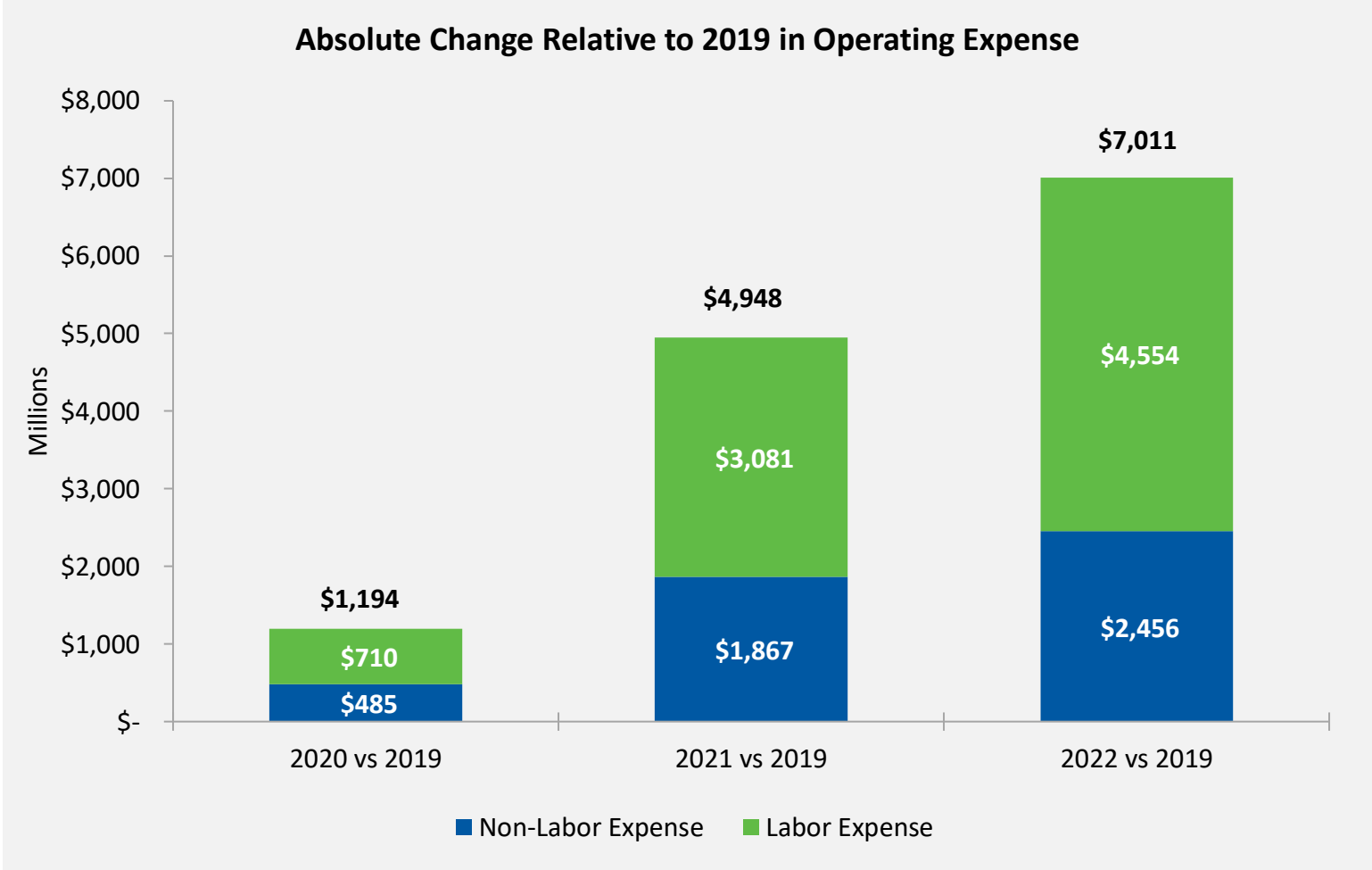


## KEY TAKEAWAYS

- Growth in Georgia hospital operating expense matched that of pre-pandemic levels in 2020 but was significantly greater in 2021 and 2022.
- The rise in operating expenses are generally not within a hospital’s control and many outside factors directly impacted the increase.

Source(s): 1) Percent change in Georgia hospital operating expense was produced by Kaufman Hall using data sourced from Syntellis’ Axiom Comparative Analytics and Definitive Health.  
Note(s): 1) Pre-pandemic growth rate represents the percent change in operating expense from 2019 vs 2018, applied to each subsequent year (5% per year).

# Total Georgia Hospital Operating Expense Increased \$7 Billion Above Pre-Pandemic Levels

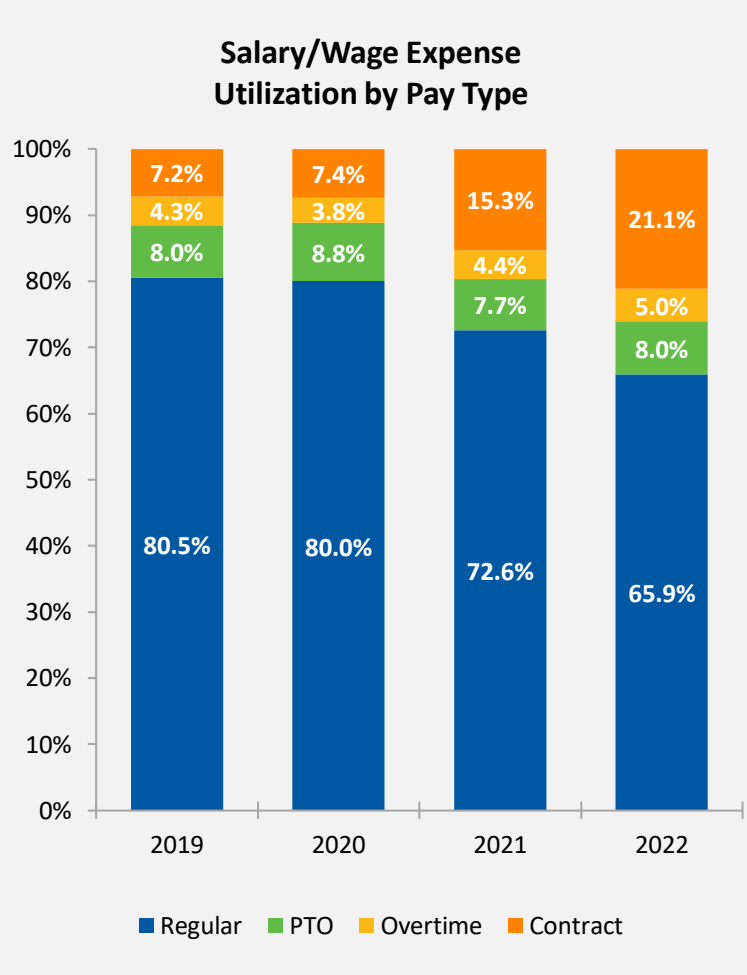
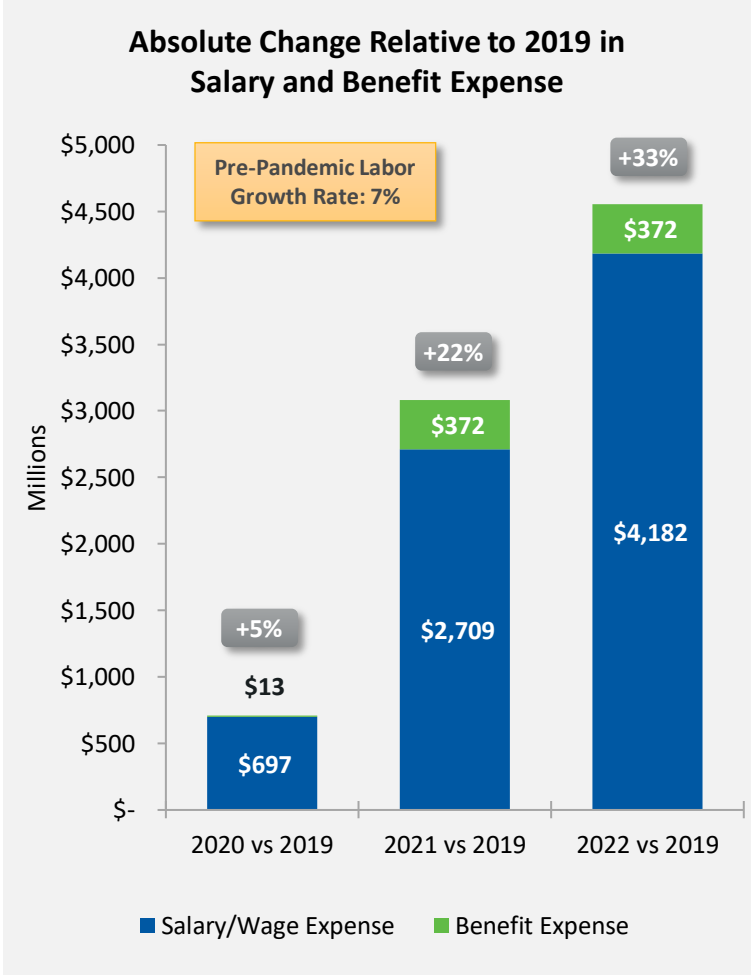


Source(s): 1) Absolute change in Georgia hospital operating expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.

## KEY TAKEAWAYS

- Total hospital operating expenses slightly increased in 2020, but then rapidly increased in 2021 and 2022.
- Georgia hospital labor expense increased more than non-labor expense in each year since 2019.
- In the three years combined following the start of the pandemic, Georgia hospitals' combined operating expense increased approximately \$13.2 billion.

# Rising Labor Costs: \$4.2 Billion Increase in Salary Expense in 2022 Compared to 2019

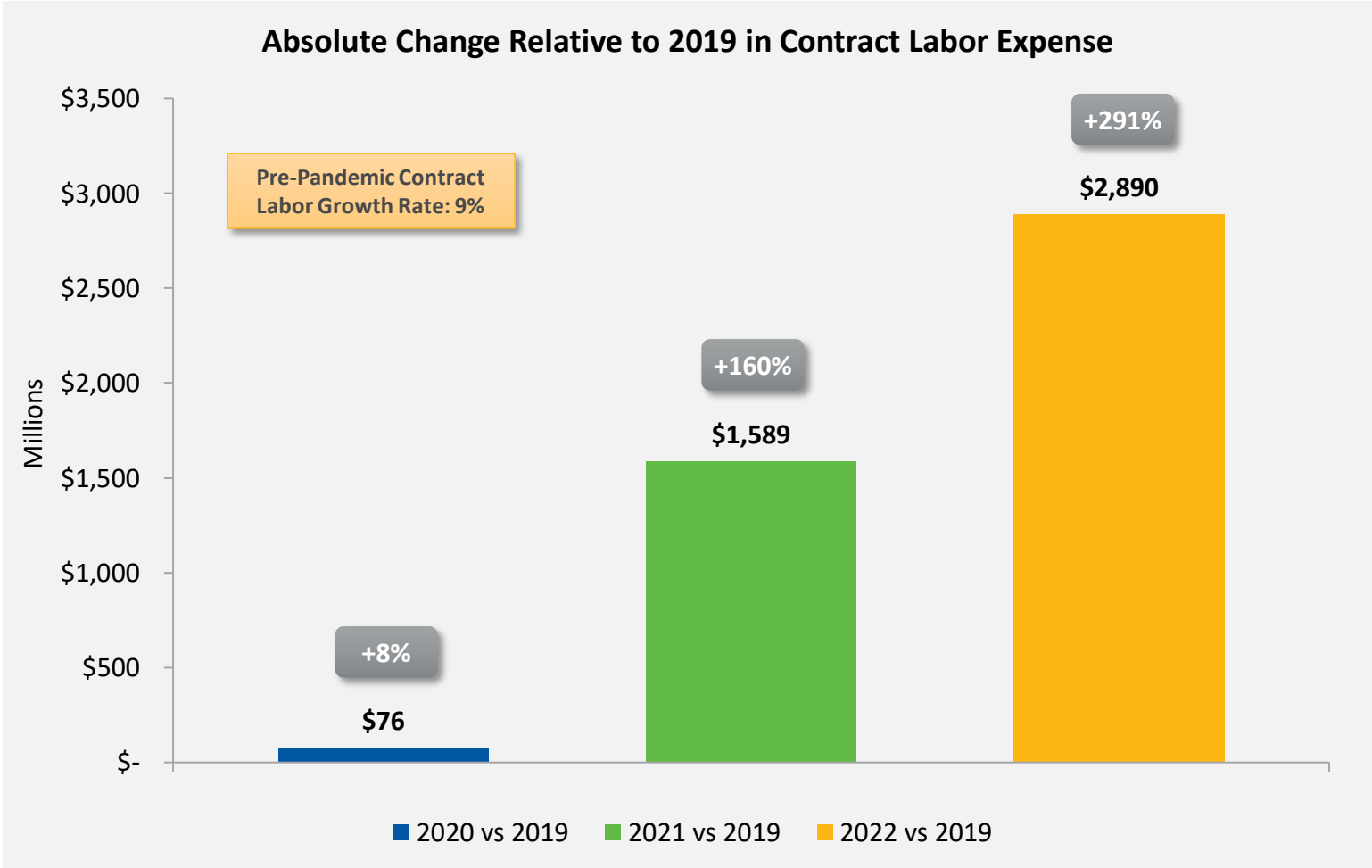


## KEY TAKEAWAYS

- Contract labor and overtime expense accounted for significantly more of the salary/wage expense in 2022 compared to 2019.
- In the three years combined following the start of the pandemic, **salary expense increased approximately \$7.6 billion**, while **benefit expense increased \$757 million**.

Source(s): 1) Absolute change in Georgia hospital salary and benefit expense and the median utilization metrics were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.  
 Note(s): 1) Pre-pandemic growth rate represents the present change in operating expense from 2019 vs 2018.

# Growing Dependence on Contract Labor: \$2.9 Billion Increase Compared to 2019



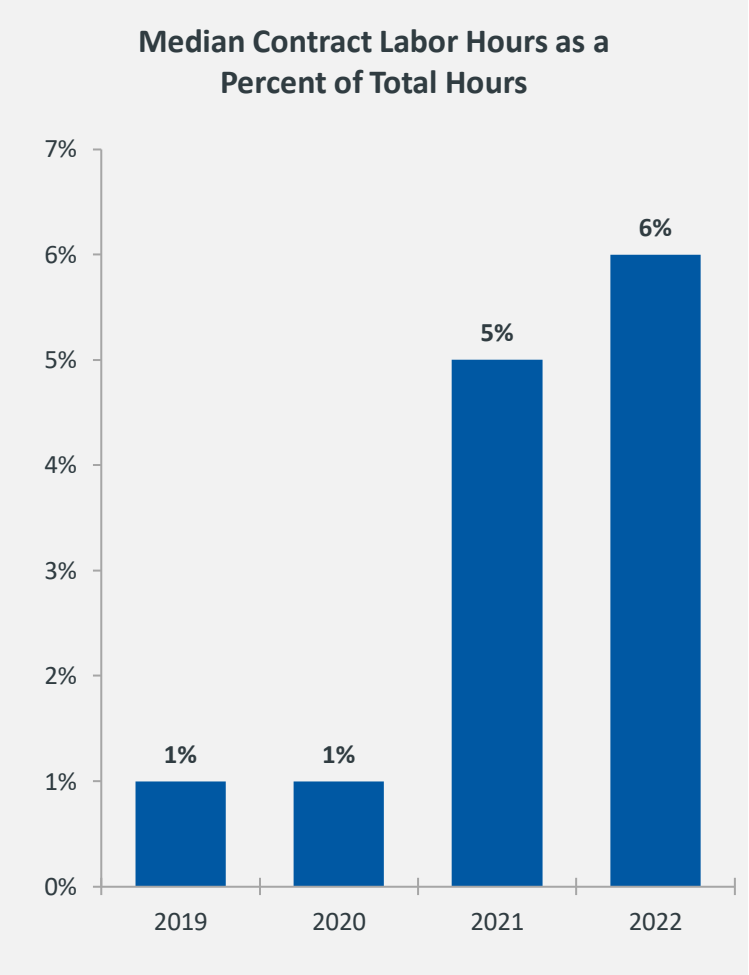
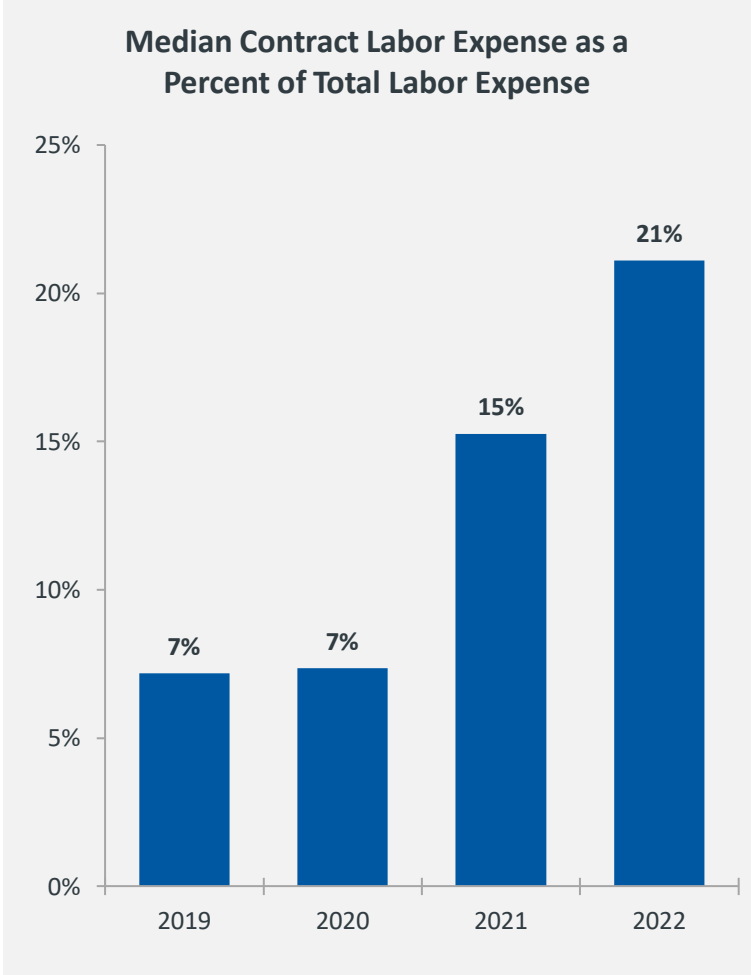
## KEY TAKEAWAYS

- Compared to pre-pandemic levels, contract labor expenses for Georgia rose dramatically due to increased reliance on more expensive contract labor.
- In the three years combined following the start of the pandemic, Georgia hospitals have collectively spent approximately \$4.6 billion more in contract labor compared to 2019 levels.

*The state of Georgia paid an additional \$521 million on behalf of hospitals to Healthcare Workforce Logistics (HWL) for temporary staffing between 2020-2022.*

Sources: Kaufman Hall analysis using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health; and the Georgia Department of Community Health's State of Georgia COVID19 Rapid Response Utilization Projection report for temporary staffing by HWL.  
 Note(s): 1) Pre-pandemic growth rate represents the present change in contract labor expense from 2019 vs 2018.

# Georgia Hospital Contract Labor Expense Makes up a Growing Percent of Total Labor Expense

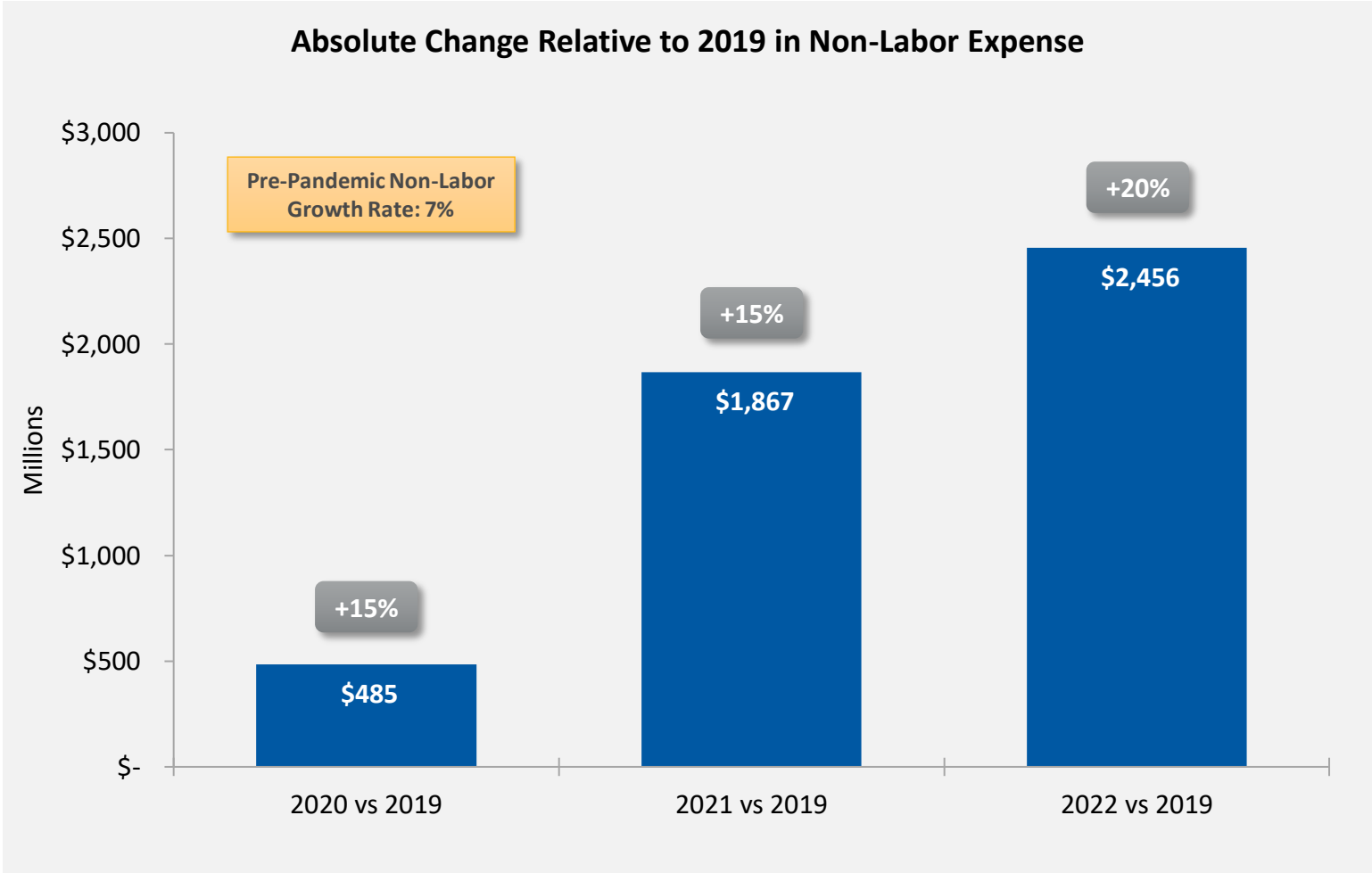


## KEY TAKEAWAYS

- Median contract labor expense as a percent of total labor expense increased to 21% in 2022, while median contract labor hours as a percent of total hours only increased to 6%.
- The larger increase in contract labor expense as a percent of total expense can be attributed to an increase in the median contract labor wage rate, which exceeded \$159 per hour in 2022.

Source(s): 1) Median percent changes were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.

# Non-Labor Expense Increased Approximately \$2.5 Billion Above Pre-Pandemic Levels



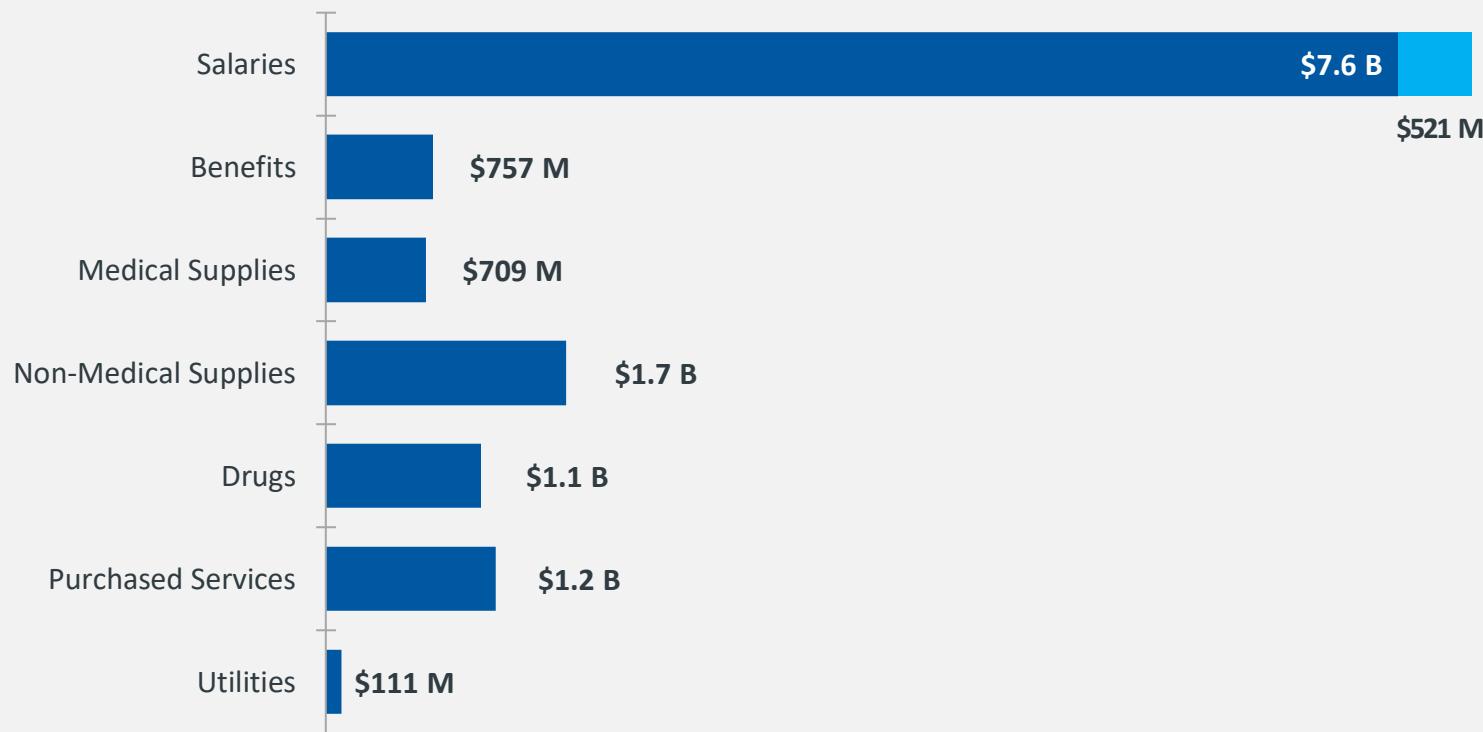
## KEY TAKEAWAYS

- Growth in Georgia hospital non-labor expense has grown at a similar rate to pre-pandemic levels each year.
- In the three years combined following the start of the pandemic, Georgia hospitals have collectively spent approximately \$4.8 billion more on non-labor expenses.

Source(s): 1) Absolute change in Georgia hospital medical supply expense was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health.  
 Note(s): 1) Pre-pandemic growth rate represents the present change in operating expense from 2018 vs 2019.

# Expenses are Significantly Elevated from Pre-Pandemic Levels

2020-2022 Cumulative Change in Expense vs. Pre-Pandemic



- Changes in expenses incurred directly by Georgia hospitals and health systems.
- Expenses paid directly by the state of Georgia to HWL for temporary staffing in 2020 and 2021.

## KEY TAKEAWAYS

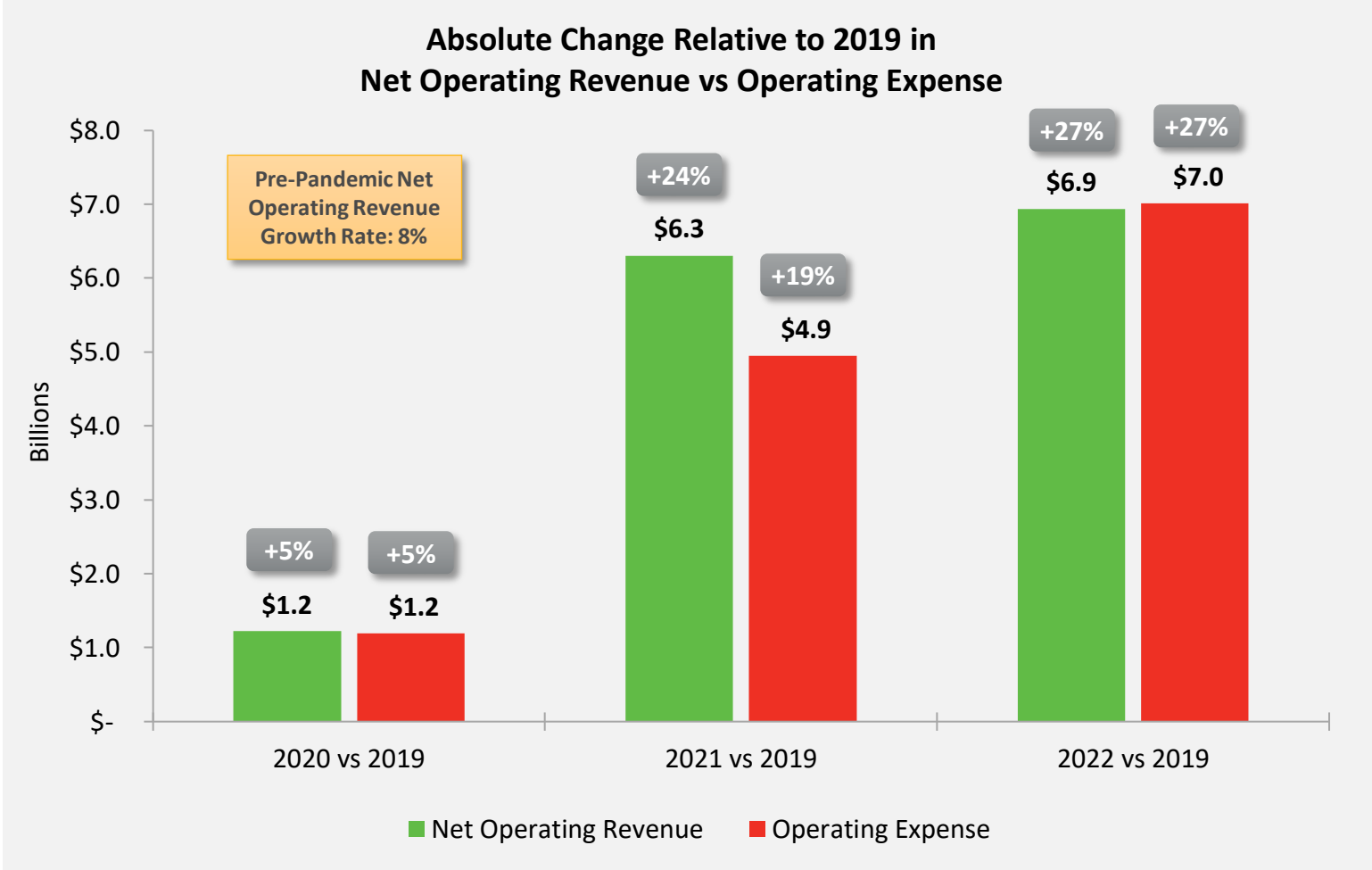
- In the three years combined following the start of the pandemic, **salary expense increased approximately \$7.6 billion**, while **benefit expense increased \$757 million**.
- **Non-medical supply expenses have increased \$1.7 billion** since 2019.
- In the last three years combined, **Georgia hospitals have collectively spent \$1.2 billion more on purchased services**—or services contracted to outside vendors that include items like revenue cycle services, software, and laundry.

Sources: Kaufman Hall analysis using data sourced from Syntellis' Axiom Comparative Analytics and Definitive Health; and the Georgia Department of Community Health's State of Georgia COVID19 Rapid Response Utilization Projection report for temporary staffing by HWL.



# Operating Revenue

# Total Georgia Hospital Net Operating Revenue Grew by \$7.0 Billion Since 2019

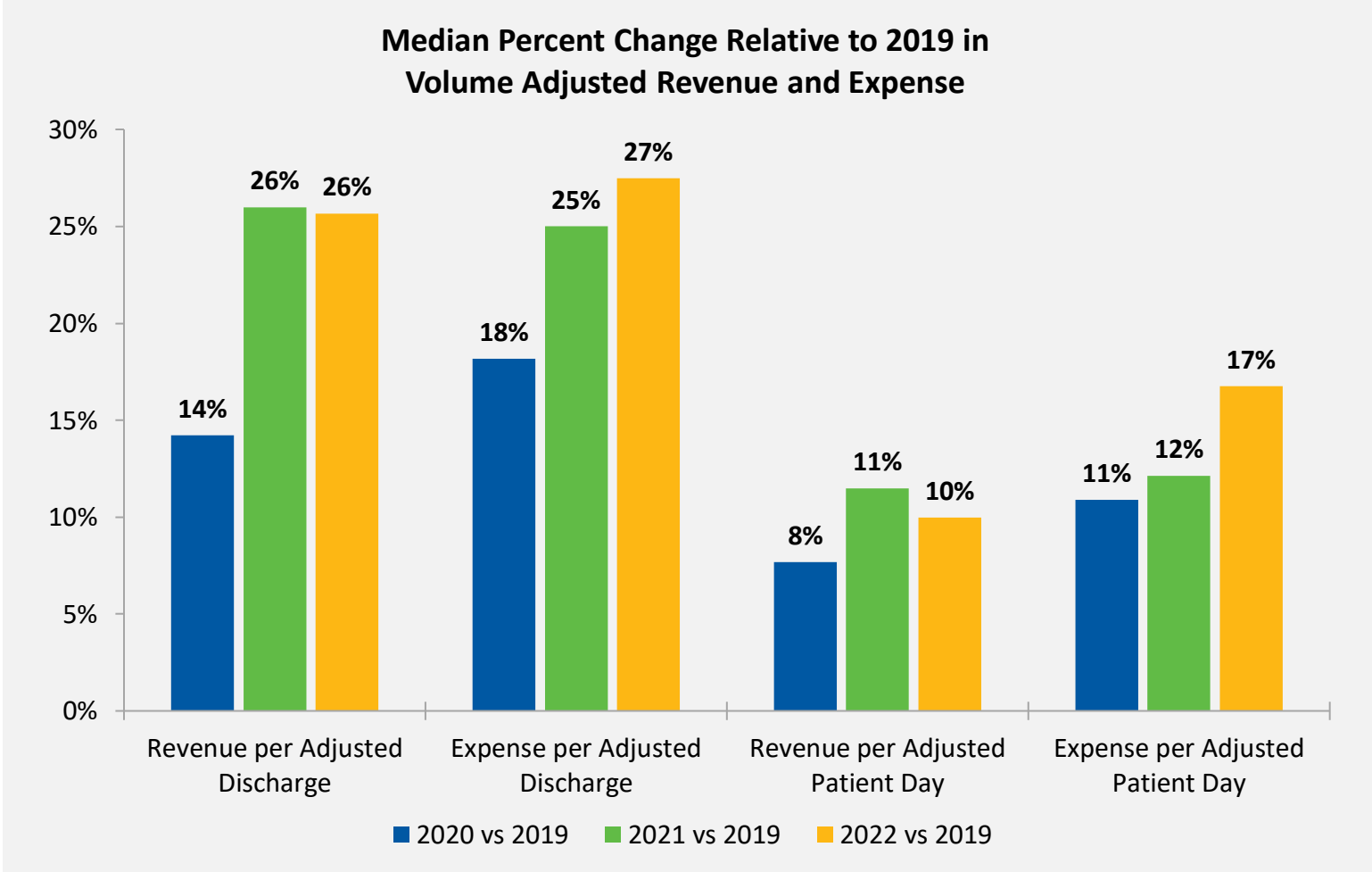


## KEY TAKEAWAYS

- While Georgia hospital net operating revenues have grown since the start of the pandemic, the rate of growth has lagged the rate of growth in expenses in 2022.
- Payments made to Georgia hospitals in 2020, 2021, and 2022 from the PRF contributed to the increase in hospital net operating revenues and helped hospitals cover their increasing operating expenses.

Source(s): 1) Absolute change in Georgia hospital net operating revenue and expense were produced by Kaufman Hall using data sourced from Syntelli's Axiom Comparative Analytics and Definitive Health.  
 Note(s): 1) Pre-pandemic growth rate represents the present change in operating expense from 2018 vs 2019.

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



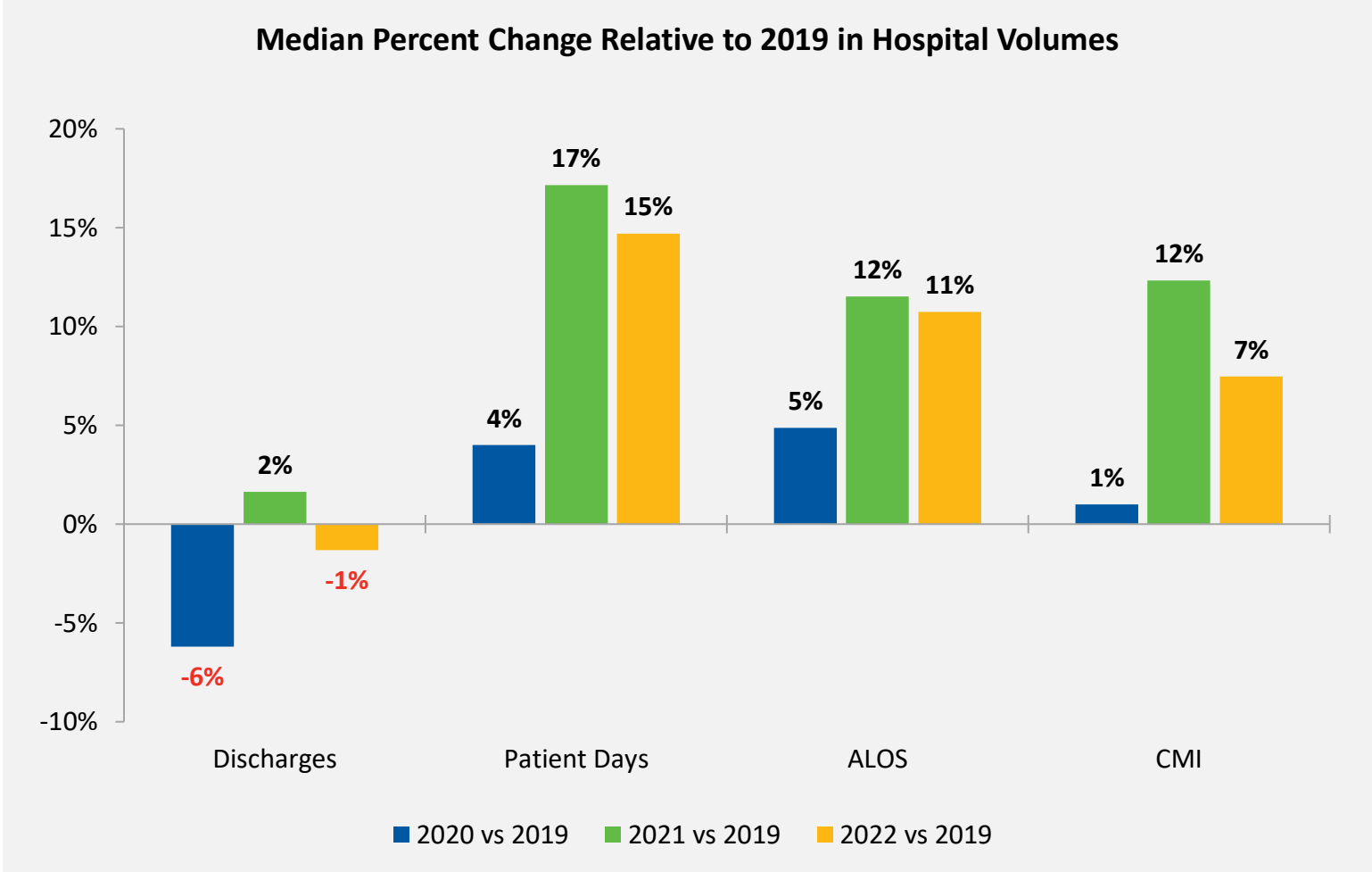
Source(s): 1) Median change in Georgia hospital volume adjusted revenue and expense were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.

## 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 and expense per patient day both outpaced revenue growth due to sicker patients, and longer lengths of stay caused by post-acute care labor shortages.

# Volumes

# Discharges Have Not Fully Recovered to Pre-Pandemic Levels, While Average Length of Stay Has Increased

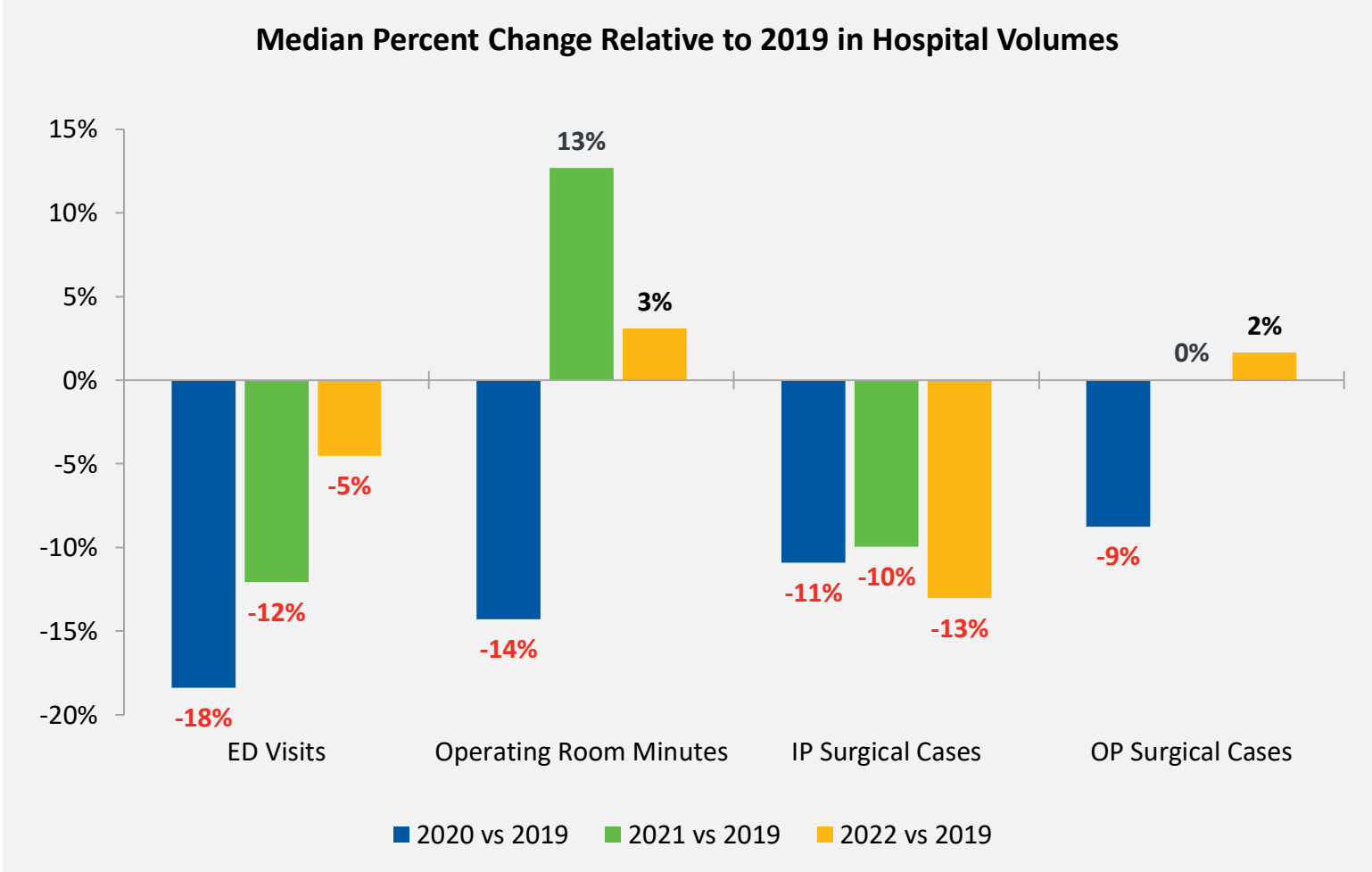


Source(s): 1) Median change in Georgia hospital volumes were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.

## KEY TAKEAWAYS

- Discharges have not fully recovered to pre-pandemic levels, while patient days, average length of stay (ALOS), and case mix index (CMI) are higher compared to 2019.
- Growth in patient days continued to outpace the growth in discharges, leading to an increase in average length of stay and further stressing hospital finances.

# ED Visits and Inpatient Surgical Cases Have Not Fully Recovered to Pre-Pandemic Levels



Source(s): 1) Median change in Georgia hospital volumes were produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.

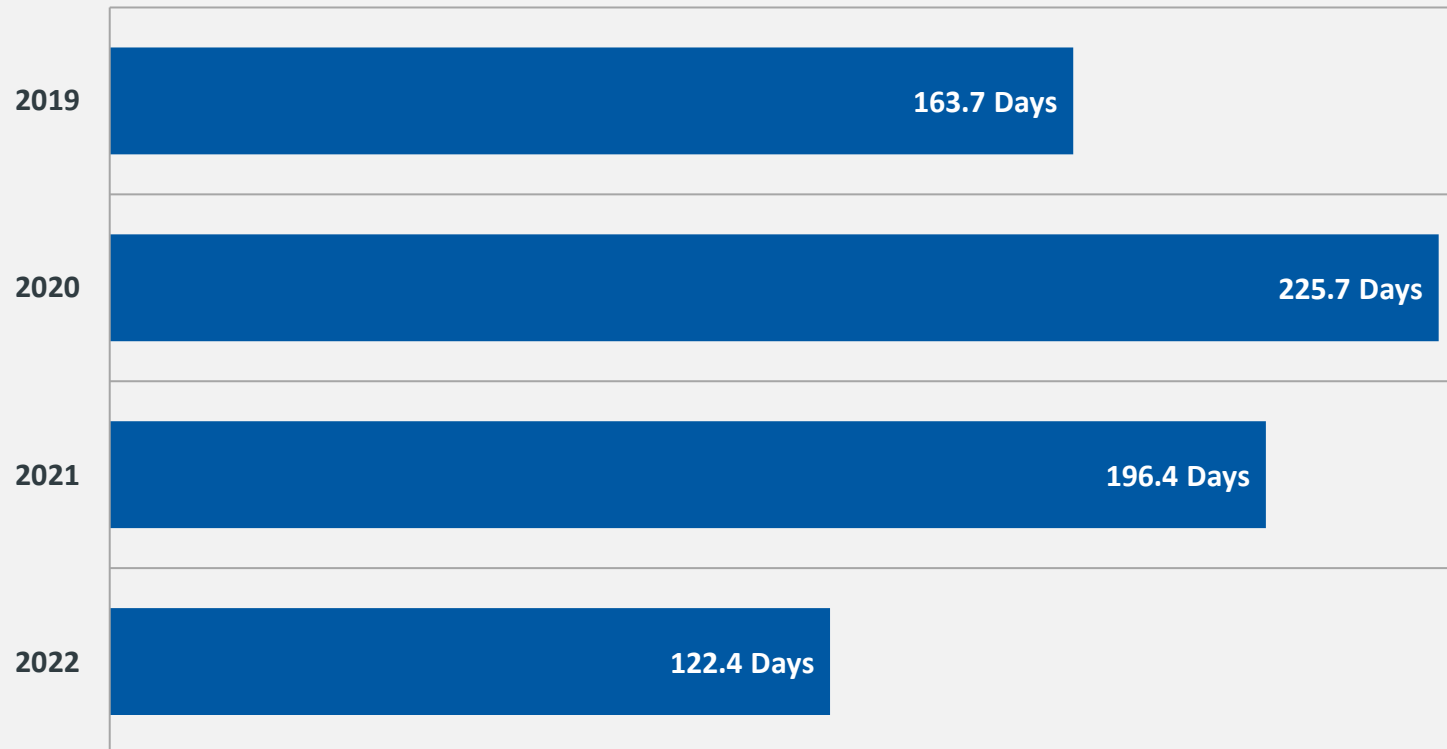
## KEY TAKEAWAYS

- ED visits and inpatient surgical cases have not fully recovered to pre-pandemic levels, while outpatient surgical cases and operating room minutes are higher compared to 2019.
- Growth in operating room minutes peaked in 2021, caused by a rebound in postponed elective procedures.
- Growth in outpatient surgical cases continued to outpace the growth of inpatient surgical cases.

# Balance Sheet

# Days Cash on Hand Have Declined Sharply Since 2020

Median Days Cash on Hand for Georgia Hospitals, 2019-2022



Source(s): 1) Median percent change in health system days cash on hand was produced by Kaufman Hall using data sourced from Syntellis' Axiom Comparative Analytics.  
Source: Kaufman Hall analysis of 2019 median reports from Fitch Ratings, Moody's Investors Service, and S&P Global.

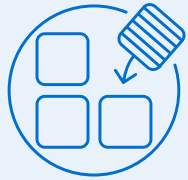
## KEY TAKEAWAYS

- The median number of Days Cash on Hand available to Georgia hospitals declined as cash was used to cover operating losses and the average operating cost per day increased.
- Prior to the pandemic, U.S. hospitals and health systems in 2019 had a median Days Cash on Hand of 276 to 289 days at the AA level, 173 to 219 days at the A level, and 140 to 163 days at the BBB level.
- In other words, the Days Cash on Hand benchmark for organizations seeking to maintain an investment-grade rating would be well over 100 Days Cash on Hand, and well over 200 Days Cash on Hand for organizations seeking to achieve a higher rating level.



# Methodology

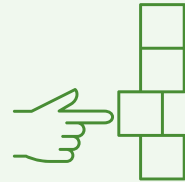
# Methodology



1

## Generated the Kaufman Hall Sample

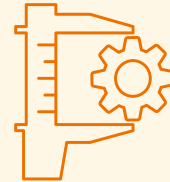
Georgia hospitals were sampled from data provided by Syntellis Performance Solutions.



2

## Normalized the Kaufman Hall Sample

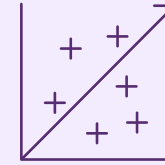
Based on hospital bed-sizes, the Kaufman Hall sample was bootstrapped so that the distribution of hospitals within various bed-size bins matched that for the entire state of Georgia.



3

## Computed the 2019 Baseline

Using data from Definitive Health, the total net operating revenue and operating expense for all critical access, acute care, and children's hospitals within the state of Georgia were calculated for 2019.



4

## Calculated Median Percent Change

The median year-over-year percent change was calculated from the Kaufman Hall sample for each metric.



5

## Extrapolated the 2020–2022 Absolute Values

Extrapolated absolute change figures for 2020-2022 were calculated by applying the median year-over-year percent changes from the Kaufman Hall sample to the 2019 baseline metrics.

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