<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter from the Publisher</td>
<td>3</td>
</tr>
<tr>
<td>Kaufman Hall Perspective</td>
<td>5</td>
</tr>
<tr>
<td>Margin</td>
<td>7</td>
</tr>
<tr>
<td>Volume</td>
<td>10</td>
</tr>
<tr>
<td>Revenue</td>
<td>15</td>
</tr>
<tr>
<td>Expense</td>
<td>20</td>
</tr>
<tr>
<td>Non-Operating</td>
<td>25</td>
</tr>
<tr>
<td>About Data</td>
<td>32</td>
</tr>
<tr>
<td>Contributors</td>
<td>33</td>
</tr>
</tbody>
</table>
Dear Readers,

At 7 p.m. each evening, residents in cities like New York and Chicago stand at their windows and balconies, cheering the nation’s frontline healthcare workers. It’s a moving expression of unity and much-deserved gratitude that has been replicated in cities worldwide to honor the brave men and women risking their own health and safety every day to save lives and stem the spread of COVID-19. Their efforts are taking a great toll on them personally, and we owe them our deepest thanks.

At the same time, fighting the virus is taking a financial toll on the hospitals where these healthcare professionals do their heroic work. The graph below shows how the pandemic completely upended the financial health of the hospital industry in a matter of just 2-3 weeks in March. The long red bar illustrates the rapid descent hospital margins took in March compared to average monthly margin changes over the past two years.

Widespread cancellations of elective procedures were the major driver of these negative impacts, as hospitals prepared for an influx of COVID-19 patients. These elective procedures—such as joint replacements and non-emergent heart surgeries—are the profitable revenue sources that balance losses from many other acute care services.
As a result, March saw hospitals’ already-thin margins plunge into the red, as volumes and revenues fell, and organizations incurred the expenses of building staff, supplies, and capacity in preparation for a surge of coronavirus patients. We anticipate April will be significantly worse, and at this point, no one knows how long hospitals will continue on their current path.

One thing is certain—the nation cannot afford to let its hospitals fail. Not only are hospitals the frontlines for the battle with COVID-19, but healthcare also accounts for 18% of U.S. Gross Domestic Product. Hospitals account for a third of that, employing more than 7 million people. Without financial support, hospitals’ abilities to help will be impaired, some hospitals will be forced to close, and many healthcare workers will lose their jobs. The societal, economic, and public health impacts will be dire.

Our healthcare workers are risking so much to keep us safe. Just as we need them now more than ever, they need us more than ever to provide the financial stability to enable them to continue their critical work in the ongoing fight against COVID-19, and to be fully prepared for other, as-yet unknown future healthcare threats.

Thanks,

Jim Blake
Managing Director and Publisher
Kaufman Hall

See Kaufman Hall’s Coronavirus page for regular updates.
Hospitals across the country took a financial beating in March, as the first effects of the COVID-19 pandemic hit the industry, particularly in the second half of the month. Volume and revenue declines, along with flat expenses, resulted in a dramatic fall in margin within a matter of weeks, plunging not-for-profit hospitals, which historically operate on thin margins, deep into the red.

Hospitals’ median Operating EBITDA Margins fell more than 100% in March, dropping a full 13 percentage points relative to last year. This represents a dramatically greater change than seen most months, as illustrated in the chart below. For example, the median Operating EBITDA Margin change was up just 1 percentage point in March 2019, and down 1 percentage point in February 2020. These margins likely fell even further across broader health systems, which often include substantial physician and ambulatory operations outside of the hospital.

**Volume and Revenue Declines**

Across-the-board volume declines were a major contributor to the steep decline in margins, as providers postponed elective procedures to free capacity and equipment for COVID-19 patients, and as individuals cancelled appointments for fear of contracting or unwittingly spreading the virus. Operating Room minutes were down nearly 20% compared to the same period last year, and were more than 25% below budget.

These cancellations drove significant declines in revenues, as hospitals rely on income from scheduled procedures—such as joint replacements and non-emergent heart surgeries—to balance losses from many other acute care services. March revenues fell 13% compared the same period last year, and were significantly below budget expectations, 13% lower than budget for inpatient revenue and 17% lower than budget for outpatient revenue.
Cancellations also drove significant declines in hospital occupancy rates, as nearly half of the nation’s hospital beds sat empty in anticipation of the coronavirus surge. The median occupancy rate was 53% in March, down from 65% in March 2019. Year-over-year discharges decreased 11%, adjusted discharges fell 13%, and adjusted patient days fell 15%. ED visits dropped 15% year-over-year as people stayed home, or delayed or avoided care to lessen risks of exposure.

At the same time, bad debt and charity rose 13% year-over-year—increases that likely will accelerate in coming months as people lose coverage due to the economic slowdown.

**Expenses**
The nation’s hospitals continued to incur high expenses in March, despite seeing far fewer patients. This stark imbalance illustrates that hospitals were unable to reduce expenses as they maintained front-line caregivers in anticipation of mounting COVID-19 cases, and retained additional staff to cover caregivers who may become infected. Organizations also incurred added expenses to maintain and expand inventories of drugs, supplies, equipment, and capacity in preparation for a surge. Expenses were either flat or up slightly for the month, with total labor expense up 3% year-over-year and total non-labor expense up 1% year-over-year.

**Looking Forward**
This is just the beginning. For many hospitals, the volume and revenue impacts primarily hit the last two weeks of March—showing just how quickly the pandemic is upending the industry. The results will be even more dramatic in coming months, as hospitals experience the effects of COVID-19 over extended periods.
March was a devastating month for the healthcare industry, as hospitals across the country felt the first shockwaves from the COVID-19 pandemic. In a matter of weeks, income fell dramatically, plunging non-profit hospitals that historically operate on thin margins solidly into the red.

Median Operating Margins fell to -8% in March for hospitals nationwide, down from 4% in February. The impact likely was more significant for broader health systems, which typically include considerable physician and ambulatory operations outside of hospitals. Across-the-board volume declines were a major contributor, as providers postponed elective procedures to free up capacity and equipment for COVID-19 patients, and individuals cancelled appointments for fear of contracting or unwittingly spreading the virus. Revenues fell dramatically below budget expectations, down 13% for inpatient revenue and down 17% for outpatient revenue in absolute change.

Despite seeing significantly fewer patients, expenses were either flat or up. This stark imbalance illustrates that hospitals were unable to reduce expenses as they maintained front-line caregivers in anticipation of mounting numbers of COVID-19 cases, and organizations incurred added expenses to maintain and expand inventories of drugs, supplies, equipment, and capacity in preparation for a surge.

Operating Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) fell 100% compared to the same period last year, or 13 percentage points in absolute change. For example, a hospital that had an EBITDA Margin of 8% dropped to -5%. Operating Margin dropped even more, at 150% or 14 percentage points year-over-year, and about 140% or 11 percentage points month-over-month.

Further reflecting the dramatic and unanticipated nature of the pandemic’s widespread impacts, Operating EBITDA Margin fell 107% (14 percentage points) below budget expectations in March, while Operating Margin was more than 170% (15 percentage points) below budget.

These impacts occurred in just a matter of weeks in March, and represent only the beginning of the pandemic’s broader effects on the industry. The impacts likely will be more significant moving forward.
EBITDA Margin by Region

Hospitals across all regions of the country saw margin results fall both year-over-year and to budget in March. The Northeast/Mid-Atlantic took the biggest hit, as those states were among the first to issue stay-at-home orders the second half of March (following California’s lead), and the region continues to see the highest concentrations of COVID-19 in the country.

Hospitals in the Northeast/Mid-Atlantic saw Operating EBITDA Margin fall 167% compared to March 2019, or 13 percentage points in absolute change, and 172% to budget. The declines were due in part to the region having some of the most significant decreases in surgery volumes for the month, coupled with increases in labor and non-labor expenses.

Hospitals in the South saw Operating EBITDA Margin declines of 94% year-over-year (15 percentage points) and down 98% to budget. While still significant, Operating EBITDA Margin declines were the least or hospitals in the Great Plains, where they fell 87% (8 percentage points) year-over-year and 114% to budget.
EBITDA Margin by Bed Size

Operating EBITDA Margins also saw sizable declines across all bed-size cohorts. Results were relatively clustered, with hospitals with 500 beds or more seeing the biggest year-over-year decline at 118%, and down 111% to budget.

Hospitals of 0-25 beds saw a decline of nearly 90% year-over-year and was down 126% to budget. The impacts of these decreases on the nation’s smallest hospitals could be dire, as they typically are at higher risk with fewer financial resources to draw upon in a downturn.
National Volume Observations

Volumes were down across all measures at hospitals around the country in March, as patients and providers cancelled elective and non-emergent procedures to comply with calls for social distancing, minimize potential spread of the virus, and to ramp up capacity in preparation for COVID-19 patients. The cancellations include services such as heart or orthopedic procedures, which can account for as much of 80% of hospital revenues.

The cancellations drove significant declines in hospital occupancy rates, as nearly half of the nation’s hospital beds sat empty in anticipation of coronavirus patients to come. Median occupancy fell from 62% in February to 53% in March, and was down from 65% in March 2019. Looking at intensive care units (ICUs), occupancy rates fell to 62% in March, down from 68% in February and 71% in March 2019.

Overall Discharges decreased 11% year-over-year and 4% month-over-month, falling 13% below budget expectations. Adjusted Discharges fell 13% compared to March 2019, 8% compared to February, and were 16% below budget. Meanwhile, Adjusted Patient Days declined 15% year-over-year and 10% month-over-month, and fell 15% below budget expectations. Average Length of Stay (LOS) saw the least decreases of any volume metric, down about 3% both year-over-year and month-over-month, and just 1% below budget.

ED Visits also dropped as people stayed home, and many delayed or avoided care for fear of exposure to the virus. March saw ED Visits decrease 15% year-over-year and 10% month-over-month, falling 14% below budget.

Operating Room (OR) Minutes saw the most dramatic declines, as patients and providers cancelled or postponed procedures. Operating Room Minutes were down 19% compared to the same period last year, 17% compared to February, and fell 26% below budget.

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<th>Volumes % Change</th>
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<th>Month Over Month</th>
<th>Year Over Year</th>
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</thead>
<tbody>
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<td>Discharges</td>
<td>-13.3%</td>
<td>-4.2%</td>
<td>-11.4%</td>
</tr>
<tr>
<td>Adjusted Discharges</td>
<td>-15.5%</td>
<td>-8.0%</td>
<td>-13.0%</td>
</tr>
<tr>
<td>Adjusted Patient Days</td>
<td>-14.7%</td>
<td>-9.8%</td>
<td>-15.1%</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>-1.3%</td>
<td>-3.0%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>ED Visits</td>
<td>-14.3%</td>
<td>-10.1%</td>
<td>-15.4%</td>
</tr>
<tr>
<td>Operating Room Minutes</td>
<td>-26.4%</td>
<td>-17.4%</td>
<td>-19.2%</td>
</tr>
</tbody>
</table>

Unless noted, figures are Actuals and Medians.
Looking at hospitals by region, volumes were down both year-over-year and to budget for all regions spanning Discharges, Adjusted Discharges, Adjusted Patient Days, ED Visits, and Operating Room Minutes. Results were relatively clustered across each of these metrics. For Discharges, the West saw the greatest decreases, down 13% year-over-year and 20% to budget, while the Northeast/Mid-Atlantic had the lowest decreases, down 11% both year-over-year and to budget.

For Adjusted Discharges, the Midwest saw the greatest variances, down 19% year-over-year and 21% to budget. This may be due in part to relatively lower rates of COVID-19 cases in the region for the month compared to the number of procedures cancelled. The South and Great Plains saw the least variances for this metric, down about 9% year-over-year and 13% to budget.
Adjusted Patient Days ranged from a decline of 14% year-over-year in the South and Northeast/Mid-Atlantic to 19% year-over-year in the Midwest. The Midwest also had the greatest decrease to budget at 20%, while the South had the least decrease at 12%. ED Visit declines ranged from 18% year-over-year and 19% to budget in the Northeast/Mid-Atlantic, to 11% both year-over-year and to budget in the Midwest.

Operating Room Minutes saw greater variance in decreases across different regions. The Midwest saw the greatest declines, down 26% year-over-year and 35% to budget. The Great Plains had the least year-over-year decrease in Operating Room Minutes at 4%, and the West had the least decline to budget at 23%.

For Average LOS, the Northeast/Mid-Atlantic was the only region to see a year-over-year increase at 5%, but the region was down 7% for this metric compared to budget. The West and Great Plains saw Average LOS increase to budget but decrease year-over-year, while the Midwest and South both saw decreases to budget and year-over-year.
Volume performance showed similar patterns looking at hospitals by size. Results were down year-over-year and to budget for all bed-size cohorts across Discharges, Adjusted Discharges, Adjusted Patient Days, ED Visits, and Operating Room Minutes. The nation’s smallest hospitals of 0-25 beds saw the greatest decreases for Discharges, down 15% year-over-year and 19% to budget, while the largest hospitals of 500 beds or more saw the least decreases, down 9% year-over-year and 8% to budget.

Year-over-year results for Adjusted Discharges ranged from a 10% decline for hospitals with 500 beds or more to a 15% decline for those with 100-199 beds. Results compared to prior month ranged from an 11% drop for hospitals with 300-499 beds, to an 18% decrease for smaller hospitals with 26-99 beds. For Adjusted Patient Days, hospitals with 0-25 beds saw the greatest decrease compared to the same period last year at 17%, while those with 200-299 beds saw the greatest decrease compared to budget at 19%.
**Volume by Bed Size (continued)**

ED Visits ranged from declines of 12% year-over-year and 13% to budget for hospitals with 500 beds or more, to 17% both year-over-year and to budget for hospitals with 300-499 beds. The smallest hospitals of 0-25 beds saw the least decrease to budget for this metric, down 11%.

For Operating Room Minutes, the smallest hospitals of 0-25 beds saw the greatest decrease to budget at 34%, but the least year-over-year decrease at 11%. Hospitals with 100-199 beds saw the greatest year-over-year decrease for this metric at 26%.

There was significantly more variation in Average LOS across bed-size cohorts. All cohorts saw year-over-year decreases in Average LOS ranging from less than 1% for hospitals with 300-499 beds, to 9% for those with 200-299 beds. Results to budget were more varied, with hospitals of 100-199, 200-299, and 300-499 beds all seeing decreases, and hospitals with 0-25, 26-99, and 500 beds or more all experiencing increases.
Overall revenues were down for hospitals across the country in March, as they felt the sting of volume declines the latter half of the month. Overall revenues fell dramatically below budget expectations as a result, down 13% for inpatient revenue and down 17% for outpatient revenue in absolute change.

Bad Debt and Charity as a Percent of Gross saw consistent increases, jumping 13% year-over-year, 8% month-over-month, and 11% above budget. These results are not out of line with previous months, as hospitals routinely face increases in bad debt and charity care. However, organizations likely will see these increases accelerate in coming months as people lose coverage due to a stagnant economy and rapidly rising unemployment, which jumped to 4.4% in March.

Looking at variances to prior performance, Net Patient Service Revenue (NPSR) per Adjusted Discharge and per Adjusted Patient Day both fell 2% compared to budget expectations, but were up year-over-year. The increases were due to volumes dropping more rapidly than revenues. The Inpatient/Outpatient (IP/OP) Adjustment Factor was down across all measures, falling 2% year-over-year, and down 3% both month-over-month and to budget.

<table>
<thead>
<tr>
<th></th>
<th>Budget Variance</th>
<th>Month Over Month</th>
<th>Year Over Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>NPSR per Adjusted Discharge</td>
<td>-1.8%</td>
<td>-2.1%</td>
<td>1.3%</td>
</tr>
<tr>
<td>NPSR per Adjusted Patient Day</td>
<td>-1.8%</td>
<td>0.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>IP/OP Adjustment Factor</td>
<td>-2.7%</td>
<td>-3.2%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Bad Debt and Charity as a % of Gross</td>
<td>11.4%</td>
<td>7.5%</td>
<td>12.6%</td>
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</table>

Unless noted, figures are Actuals and Medians.
Revenue results showed significant variance across different regions in March. Looking first at absolute change, inpatient revenues fell 14% below budget for hospitals in three regions—the Great Plains, Northeast/Mid-Atlantic, and West. In the Midwest, inpatient revenues were 11% below budget, and 12% below budget in the South. For outpatient revenue, the Midwest had the biggest decrease to budget at 20%, followed by the West at 19%, and the Northeast/Mid-Atlantic at 18%.

For NPSR per Adjusted Discharge, the West and Midwest both saw increases year-over-year and to budget due to volumes dropping more rapidly than revenue. The South saw decreases year-over-year and to budget. NPSR per Adjusted Discharge rose 3%...
Revenue by Region (continued)

year-over-year, but fell 3% below budget in the Northeast/Mid-Atlantic, and decreased about 1% year-over-year and was essentially flat to budget in the Great Plains.

NPSR per Adjusted Patient Day decreased to budget in three of five regions, increased slightly to budget in the Midwest, and was essentially flat in the Great Plains. Year-over-year, NPSR per Adjusted Patient Day increased in four out of five regions.

Bad Debt and Charity as a Percent of Gross was up for all regions. The Midwest had the lowest year-over-year increase at 8%, and the West had the greatest increase at 34%. IP/OP Adjustment Factor was down year-over-year and to budget in four out of five regions. The Midwest had the greatest decreases for this metric, down 4% year-over-year and 5% to budget. The Great Plains was the only region to see increases in IP/OP Adjustment Factor, which rose 3% year-over-year and 1% to budget.
Revenue by Bed Size

Hospitals of all sizes saw inpatient and outpatient revenues fall below budget expectations. The nation’s smallest hospitals (0-25 beds) saw inpatient revenues 16% below budget and outpatient revenues 15% below budget in March, while the largest hospitals of 500 beds or more saw inpatient revenues down 11% to budget and outpatient revenues 16% below budget.

Absolute changes in inpatient revenues for other bed-size cohorts ranged from 11% below budget for hospitals with 300-499 beds and 500 beds or more, to 16% below budget for hospitals with 26-99 beds. Outpatient revenues for other cohorts ranged from a low of 15% below budget for hospitals with 0-25 beds, to 19% below budget for those with 300-499 beds.

NPSR per Adjusted Discharge rose year-over-year and to budget for both the nation’s smallest hospitals of 0-25 beds, and the largest hospitals of 500 beds or more. NPSR per Adjusted Discharge decreased year-over-year for hospitals with 26-99 beds.
and to budget for hospitals with 26-99 beds, and 200-299 beds, and increased year-over-year but decreased to budget for hospitals with 100-199 and 300-499 beds. NPSR per Adjusted Patient Day rose year-over-year across all bed-size cohorts, but five of six bed-size cohorts saw decreases to budget for this metric.

IP/OP Adjustment Factor fell year-over-year and to budget for five of six bed-size cohorts. The decreases ranged from 1% year-over-year and to budget for hospitals with 26-99 beds, to 3% year-over-year and 4% to budget for those with 200-299 beds.

Increases in Bad Debt and Charity as a Percent of Gross hit hospitals of all sizes in March, both year-over-year and to budget. The smallest hospitals with 0-25 beds saw the greatest increase to budget at 15%, while the largest hospitals with 500 beds or more saw the greatest year-over-year increase, up 19%.
National Expense Observations

The nation's hospitals continued to incur high expenses in March, despite seeing far fewer patients. Expense results for the month reflect organizations' efforts to rapidly build staffing, drugs, supplies, and capacity in response to the COVID-19 pandemic. Total Labor Expense was up 3% year-over-year and 4% month-over-month, and was just 1% below budget. Total Non-Labor Expense was up 1% both year-over-year and month-over-month, and was 3% below budget.

Hospitals experienced double-digit variance increases across all expense metrics per unit of service for the month. Total Expense per Adjusted Discharge jumped 18% compared to March 2019 and 12% compared to February, and was 17% above budget expectations.

Labor Expense per Adjusted Discharge followed a similar pattern, increasing 18% year-over-year and 14% month-over-month, and ending the month 18% above budget. Full-Time Equivalents (FTEs) per Adjusted Occupied Bed (AOB) rose 16% year-over-year and 17% month-over-month.

Non-Labor Expense per Adjusted Discharge rose 19% year-over-year and 10% month-over-month, and was 16% above budget. Supply Expense per Adjusted Discharge increased 15% year-over-year and 9% month-over-month, while Purchased Service Expense per Adjusted Discharge increased 22% year-over-year and 8% month-over-month. Drug Expense per Adjusted Discharge saw the largest increases of any expense metric, jumping 30% compared to the same period last year and 19% above February's results.

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<tr>
<td>Total Expense per Adjusted Discharge</td>
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<tr>
<td>Labor Expense per Adjusted Discharge</td>
<td>17.8%</td>
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<tr>
<td>FTEs per AOB</td>
<td>12.7%</td>
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<td>16.0%</td>
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<tr>
<td>Non-Labor Exp per Adjusted Discharge</td>
<td>15.7%</td>
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<tr>
<td>Supply Expense per Adjusted Discharge</td>
<td>11.8%</td>
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<td>14.7%</td>
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<tr>
<td>Drug Expense per Adjusted Discharge</td>
<td>18.4%</td>
<td>19.0%</td>
<td>30.1%</td>
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<tr>
<td>Purchased Service Expense per Adjusted Discharge</td>
<td>18.6%</td>
<td>8.4%</td>
<td>22.4%</td>
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</table>

Unless noted, figures are Actuals and Medians.
Expense by Region

Hospitals in all regions of the country saw both year-over-year and to budget increases across all expense metrics in March. The Midwest had the greatest increases in Total Expense per Adjusted Discharge, jumping 25% year-over-year and 27% to budget, while the South had the smallest increases at 14% year-over-year and 13% to budget.

Increases in Labor Expense per Adjusted Discharge reached highs of 24% year-over-year in the West, and 28% to budget in the Midwest. The West had the greatest year-over-year increase in FTEs per AOB at 19%, and the Northeast/Mid-Atlantic had the greatest increase to budget of 17%.

Looking at Non-Labor Expense per Adjusted Discharge, hospitals in the Midwest had the biggest increases at 27% year-over-year and 23% to budget.

Supply Expense per Adjusted Discharge results clustered between 17% and 21% year-over-year for hospitals in four out of five regions. The increases were lower in the South, however, at 10% year-over-year and 7% to budget.

Year-over-year increases in Drug Expense per Adjusted Discharge ranged from 24% in the West to a high of 42% in the Northeast/Mid-Atlantic, and increases to budget ranged from 14% in the Great Plains to 21% in the West. The Midwest had the highest increases in Purchased Service Expense per Adjusted Discharge at 31% year-over-year and 26% to budget.

The South and West saw the greatest increases in Total Labor Expense, up 5% year-over-year, while the Great Plains had the biggest year-over-year increase in Total Non-Labor Expense at 6%.
Expense by Region (continued)
Expense by Bed Size

Hospitals of all sizes saw expenses increase to budget and year-over-year across all metrics in March. Year-over-year increases in Total Expense per Adjusted Discharge ranged from a low of 14% for hospitals with 500 beds or more, to a high of 21% for those with 100-199 beds. Increases to budget for this metric ranged from 13% for hospitals with 300-499 beds to 20% for those with 200-299 beds.

The nation’s smallest hospitals of 0-25 beds saw the largest year-over-year increase in Labor Expense per Adjusted Discharge at 21%, while the largest hospitals of 500 beds or more saw the least increase at 13%. Year-over-year variances in FTEs per AOB fell within a similar range, with a high of 19% for hospitals with 500 beds or more, and a low of 14% for hospitals with 300-499 beds.

Hospitals with 500 beds or more had the lowest year-over-year increase for Non-Labor Expense per Adjusted Discharge at 14%, while hospitals with 0-25, 100-199, and 200-299 beds all saw year-over-year increases of about 22%. This likely is indicative of the largest hospitals’ ability to leverage larger internal inventories and resource pools. Year-over-year Supply Expense per Adjusted Discharge results clustered between 10% and 14% for five of the six bed-size cohorts. The smallest hospitals of 0-25 beds were an outlier, jumping 40% year-over-year and 22% to budget for this metric.

Hospitals with 0-25 beds also saw some of the most dramatic increases in Drug Expense per Adjusted Discharge, up 52% year-over-year and 18% to budget. Hospitals with 200-299 beds saw the most significant increases to budget for this metric at 24%. Year-over-year increases in Purchased Service Expense per Adjusted Discharge ranged from 16% for hospitals with 26-99 beds to 28% for those with 100-199 beds.
Expense by Bed Size (continued)

Non-Labor Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance

Supply Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance

Drug Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance

Purchased Service Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance
Non-Operating

**National Non-Operating Observations**

Coronavirus has had wide-ranging and deep impacts on non-operating assets and liabilities in a short amount of time. Healthcare organizations have seen their unrestricted investments drop dramatically in value (before recovering over the past few weeks). Combined with the need to cover excess staffing costs and fund operating losses from delays in elective procedures, this has pushed many organizations to pursue lines of credit and other short-term liquidity support programs. Over the medium term, there is concern that the size of unrestricted asset declines and operating losses from coronavirus could push some borrowers into covenant violations on their debt tests.

The financial market impact started to build in late February, but the full effects were not felt until March—a month that will go down in history alongside the worst of 1929, 1987, and 2008. Asset classes across the board experienced historic price swings. The Dow Jones Industrial Average declined an incredible 38.3% from its February high to the March low point. In March, both domestic and global equities were hit hard with the S&P 500 falling 12.5% and the MSCI World Index down 13.5%. Fixed income markets also whipsawed as periods of heavy secondary market selling over a short period caused large swings in yield. The less-liquid tax-exempt market dislocated as rates soared well beyond their treasury counterparts.

Unemployment jumped from a 50-year low of 3.5% in February to 4.4% in March as nonfarm payrolls fell by 701,000 jobs in one month. The numbers in April continue to get worse as weekly initial jobless claims show nearly 20 million jobs lost in just the last three weeks. The unemployment number for April will be much worse, with economists projecting at least 17%

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<th>March 2020</th>
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<td><strong>General</strong></td>
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<tr>
<td>GDP Growth†</td>
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<td>Unemployment Rate</td>
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<td>Personal Consumption Expenditures, Y-o-Y</td>
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</tr>
<tr>
<td>1m LIBOR</td>
<td>0.99%</td>
<td>-52 bps</td>
<td>-150 bps</td>
</tr>
<tr>
<td>30yr MMD</td>
<td>1.99%</td>
<td>47 bps</td>
<td>-61 bps</td>
</tr>
<tr>
<td>30yr Treasury</td>
<td>1.32%</td>
<td>-35 bps</td>
<td>-149 bps</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60/40 Asset Allocation**</td>
<td>n/a</td>
<td>-8.24%</td>
<td>-3.47%</td>
</tr>
</tbody>
</table>

†U.S. Bureau of Economic Analysis, Q4 2019 “Third Estimate”
*As of market close, April 17th, 2020
**60/40 Asset Allocation assumes 30% S&P 500 Index, 20% MSCI World Index, 10% MSCI Emerging Markets Index, 40% Barclays US Aggregate Bond Index
unemployment, 7% higher than the 10% unemployment seen in October of 2008 during the Great Recession. The St. Louis Fed believes the country is only halfway to the bottom, as they project a potential unemployment rate of 32.1% in June, higher than the worst rate of 24.9% during the Great Depression.

In response, the U.S. government has taken both fiscal and monetary measures to calm markets. The Federal Reserve slashed interest rates to a range of 0% to 0.25%, down from a range of 1% to 1.25%. They also put numerous measures in place, including: unlimited securities purchases (quantitative easing), direct lending to municipal governments, a municipal bond liquidity backstop, lending through the Primary Dealer Credit Facility, backstopping money market funds via the Money Market Mutual Fund Liquidity Facility, expanding repo operations to funnelling cash to money markets, direct lending to banks, temporary relaxation of regulatory requirements for banks, direct lending to major corporations, a commercial paper funding facility, loan programs for small and mid-sized businesses, and international swap lines to make U.S. dollars available to foreign central banks.

In addition, Congress passed the $2 trillion CARES Act at the end of March. Unprecedented in size and scope, this amount of stimulus equates to approximately 10% of total U.S. GDP. Provisions specific to healthcare include: a $100 billion public health and social services emergency fund to reimburse providers for expenses or lost revenues attributable to coronavirus, adjustment of Medicare sequestration cuts, expansion of Medicare advance payment programs, enhanced Medicaid funds for states, expanding and strengthening of telepresence, and general business provisions including a delay of employer payroll taxes until 2021 and refundable payroll tax credits for 50% of wages paid by employers whose operations were fully or partially suspended due to coronavirus.
Non-Operating Liabilities

The Federal Reserve acted swiftly and decisively in response to the spread of coronavirus and its paralyzing grip on global economies. The Fed slashed target interest rates to a range of 0.0% to 0.25%, which sent 30-year Treasury bonds down to 1.32% in March. This decline also was fueled in part by the Fed’s aggressive quantitative easing measures, amounting to $700 billion of bond purchases. Municipal markets dislocated from treasury rates as investors continued to flee from municipal securities, as 30-year MMD rose 47 basis points (bps) to 1.99%. In the short-term markets, 1M LIBOR finished March at 0.99%, down 150 bps year-over-year. The tax-exempt short-term rate SIFMA ended the month at 4.71%, after spiking to 5.2% earlier in March as dealers struggled to clear inventories.

Municipal fund flows reversed a 14-month streak of strong inflows, with $41.8 billion exiting the market in March as investors sought liquidity and fled from nearly all asset classes. The low interest rate environment further fueled investors’ pessimism in the prospects of fixed-income assets as their dire outlook of equities intensified, with $53 billion being...
pulled from domestic equity funds. This spike in outflow came in response to the heightened volatility in stock markets, with the Chicago Board of Exchange's Volatility Index recording a high of 85.5 in March, levels similar to those only seen during the 2008 Financial Crisis. March marked 14 straight months of domestic equity outflows.

The devastating impacts of coronavirus on public health and global economies has further crystalized in April. However, investors cautiously regained confidence as Federal Reserve measures began to stabilize markets. The acute dislocation between U.S. Treasury and MMD rates, which had tracked closely for years prior, has become less severe as 30-year MMD has fallen 9 bps month-to-date. The short-term markets have also stabilized in April as dealer inventories cleared, with SIFMA dropping drastically from 4.71% at the end of March to 0.36% at the time of publishing. 1M LIBOR has continued to fall, down 32 bps to 0.67% since the end of March.
Non-Operating Liabilities (continued)

Note: Taxable and tax-exempt debt capital markets, as approximated here by the “30-yr U.S. Treasury” and “30-yr MMD Index,” are dependent upon macroeconomic conditions, including inflation expectations, GDP growth, and investment opportunities elsewhere in the market. A key measure to track is bond fund flows, particularly in the more supply- and demand-sensitive tax-exempt market. Fund flows are monies moving into bond funds from new investments, and principal and interest payments on existing and maturing holdings. Strong fund flows generally signal that investors have more cash to put to work, a boon to the demand. Fund inflows generally are moderate and consistent over time, while fund outflows typically are large and sudden, as external events affect investor sentiment, resulting in quick position liquidation, which can drive yields up considerably in a short amount of time.
Non-Operating Assets

Concerns over COVID-19 continued to pummel equity markets throughout March, ending the longest-standing U.S. equity bull market in history. The Dow Jones Industrial Average experienced its third largest monthly decline (38%) since the beginning of the 20th century, and the S&P dropped nearly 13% from its record high in mid-February to 2585. Additionally, the price of crude oil plummeted to $20 a barrel, a 20-year low, as the coronavirus pandemic squashed demand for oil amongst continued OPEC production negotiations.

The passage of the CARES Act on March 27 sparked late gains for equity markets. However, the MSCI World Index finished down 13.5%, and the MSCI Emerging Markets Index closed at 15.6%, leaving the Blended 60/40 Asset Allocation lower 8.24% in March, as the Barclays Aggregate Bond Index finished 60 bps lower.

To date, April has seen equities bounce back on the tailwind of the CARES stimulus package and substantial Fed action. At the time of publishing, the S&P 500 is up 11.2% month-to-date, and the MSCI World Index and MSCI Emerging Markets Index are up 6.02% and 4.28% MTD, respectively. The Barclays Aggregate Bond Index rose 1.78%, leaving the Blended 60/40 portfolio up 5.71% so far this month.

Long Term

Illustrative Investment Portfolio Returns
Month-over-Month Change

*Kraftman Hall, National Hospital Flash Report (April 2020)
Non-Operating Assets (continued)

Last Twelve Months

![Illustrative Investment Portfolio Returns Month-over-Month Change](image)

*Illustrative portfolio consists of 40% Broad Fixed Income, 30% Domestic Equities, 20% EmeDTV Developed Equities, and 10% Emerging Market Equities

† Rates as of last day of the month

Kaufman Hall, National Hospital Flash Report (April 2020)
The National Hospital Flash Report uses both actual and budget data over the last three years, sampled from over 800 hospitals on a recurring monthly basis from the Axiom Comparative Analytics™ tool. The sample of hospitals for this report is representative of all hospitals in the United States both geographically and by bed size. Additionally, hospitals of all types are represented, from large academic to small critical access. Advanced statistical techniques are used to standardize data, identify and handle outliers, and ensure statistical soundness prior to inclusion in the report. While this report presents data in the aggregate, the Axiom Comparative Analytics™ tool also contains this real-time data down to individual department, jobcode, paytype, and account levels, which can be customized into peer groups for unparalleled comparisons to drive operational decisions and performance improvement initiatives.

Axiom is the wholly owned software division of Kaufman Hall.

See more information about data.

General Statistical Terms

Range: The difference in value between the maximum and minimum values of a dataset

Average (Mean): The average value of an entire dataset

Median: The value that divides the dataset in half, the middle value

1st Quartile: The value halfway between the smallest number and the median

3rd Quartile: The value halfway between the median and the largest number

Map of Regions
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