This report aims to provide a quarterly and yearly analysis of the utilization and financial data submitted by Oregon's hospitals to the DATABANK and INFOH programs and a forward look into current trends.

As of March 31, 2022; subject to changes as data is updated.

Oregon Hospital Utilization & Financial Analysis

2021 Year-End & Current Trends

Key Insights

- COVID-19 infection rates in Oregon began a sharp upward trajectory again at the end of December 2021 with the Omicron variant - which led to high levels of hospitalization in February 2022 (1,134) similar to the peak in September 2021 (1,205).
- While volumes are expected to improve in 2022, continued labor shortages, higher case-mix acuity from patients, supply chain issues as well as rising inflation will make improving margins and cash flow challenging for Oregon.
- Severely ill patients needing more intensive services and longer hospital stays contributed to higher hospital expenses as well as constraining revenues and will not abate until continued discharge delays and boarding issues are resolved.
- Looking ahead, the 300,000 additional Oregon Medicaid enrollees added during the pandemic will remain for the foreseeable future, affecting hospital's payer mix and revenue potential.

Overall Performance

- Oregon hospitals and health systems ended 2021, the second year of the pandemic, in a weaker overall financial position compared with 2020. Twenty-five hospitals, or about 42% of acute care hospitals, ended the year with negative operating margins (CY 2021). The Median Operating Margin continued to decline from pre-pandemic levels: 2021 was 3.1% versus 4.1% for 2020, and 4.4% for 2019, including federal CARES Act funding.
- While overall volumes were higher compared to the first year of the pandemic, both inpatient discharges and emergency room visits were still about 8% lower than pre-pandemic levels. Outpatient visits (excluding ER visits), however, did improve, rising by almost 12% from 2020, and almost 7% from 2019.
- Critical labor shortages and resulting higher expenses continued to plague both large and small hospitals. Labor expense per FTE increased by almost 9% from 2020, and by 13% from 2019. Overall Total Operating Expenses increased by more than 11% compared to 2020, outstripping Net Patient Revenue by $672 million.
- In 2021 there was a divergence in financial performance between DRG and rural hospitals. CARES Act fund appropriations continued for rural hospitals in 2021 contributing to temporary better Operating and Total Margin results than DRG hospitals. Long-term financial challenges remain, and lower levels of profitability are expected to continue unless Congress authorizes additional funding.

Key Definitions

Operating Margin Percent
Measure of profitability from operations.

Total Margin Percent
Measure of profitability from all sources of income.

Net Patient Revenue
The revenue generated from patient care.

Average Length of Stay
The average number of days it takes for a patient to be discharged from an inpatient setting.

Total Operating Expense
All expenses incurred from operations.

Physician Payroll Expense
All salaries and wages paid internally to physicians, interns, residents, and other trainees.

Facility Payroll Expense
All salaries and wages paid internally to employees (other than physicians, interns, residents and other trainees).

Benefits Expense
Expenses incurred for benefit programs for all hospital employees.

Emergency Room Visits
The total number of patients seen in the emergency department who are not later admitted as inpatients.

Inpatient Visits
The total number of inpatient discharges during the reporting period.

Total Outpatient Visits
The total number of outpatient visits during the reporting period.

Full Time Equivalent (FTE)
A unit that indicates the workload of an employed person in a way that makes workloads or class loads comparable across various contexts.

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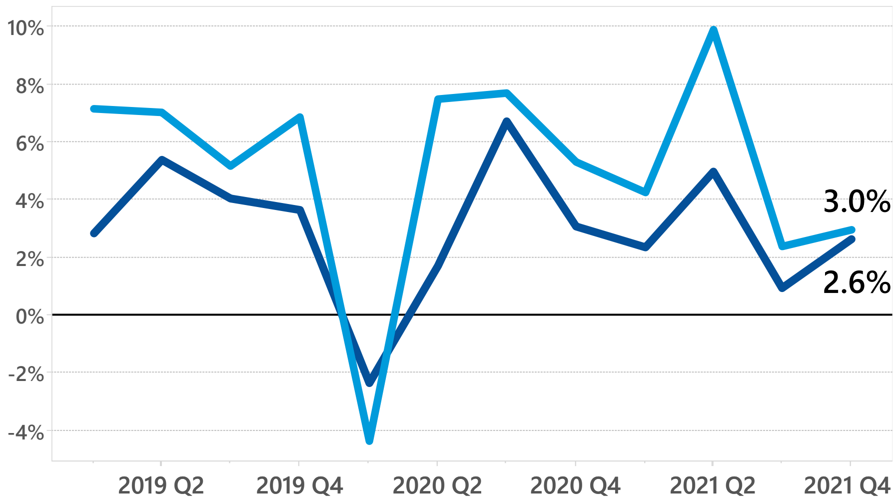
Weak Margins Make Recovery Uncertain

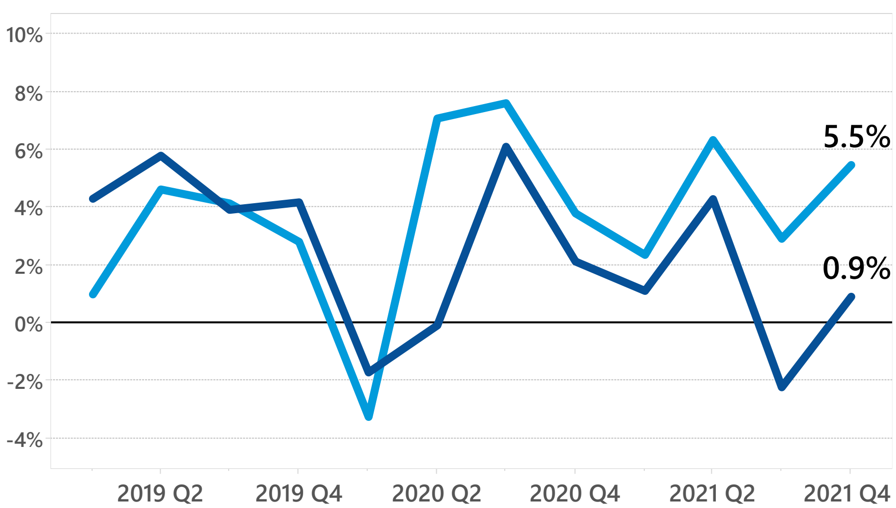
- 2021 Median Operating Margin saw a decrease from the previous year. Median Operating Margin contracted a full percentage point overall from 4.06% in 2020 to 3.06% in 2021. This continued the downslide from 2019 which was 4.39%. Over half of all DRG hospitals and 33% of rural hospitals overall had negative Operating Margins in 2021.
- On a quarterly basis, Median Total Margin, which includes investment income, hovers at 3.0%, a decrease of 2.3 percentage points compared to Q4 2020, and a decrease of 3.9 percentage points compared to Q4 2019.
- CARES Act Provider Relief Funds helped to stabilize hospital margins. Of the $1.11 billion received by Oregon providers, about $624* million went to hospitals. Without this federal support, margins would be even lower: the aggregate 2020 Operating Margin was 3.5% with CARES and declined to -0.8% with these funds removed. For 2021, the aggregate margin was 2.0% with CARES and 0.4% without. Even with CARES funds, these margin levels are not sustainable for hospitals to keep up with cost increases and overall inflation.

*As of March 16, 2022 (From HHS)

Median Operating Margin vs Median Total Margin



Median Operating Margin
DRG vs Rural



- In Q4 2021, DRG hospitals were again less profitable than rural hospitals, with Median Operating Margins at 0.9% and 5.5%, respectively.
- For 2021, DRG hospitals' Median Operating Margin was -0.3%, compared to 1.7% for 2020, and 4.9% for 2019. In comparison, rural hospitals' Median Operating Margin for 2021 was 5.5%, compared to 6.5% in 2020, and 4.4% in 2019.
- Larger, urban hospitals are paid set rates based on diagnosis (DRG), not cost, for Medicare and Medicaid patients. Consequently, the longer than expected lengths of stay due to higher acuity, combined with delayed community placement for patients after hospital treatment, are affecting hospital finances.

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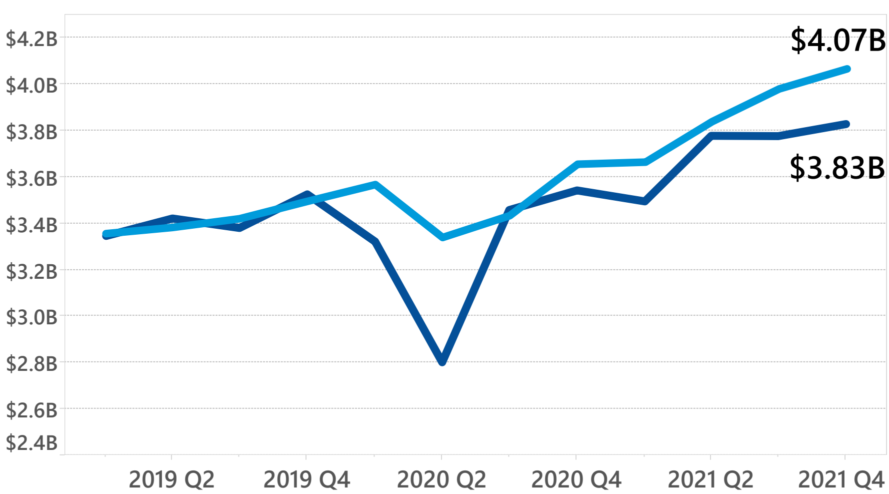
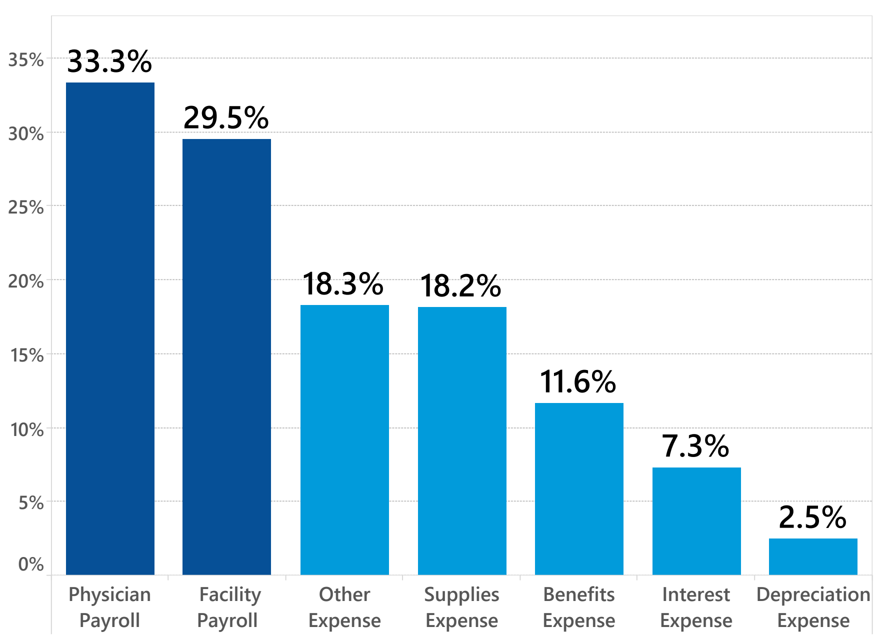
Expenses Continue to Outpace Revenues

- Although Net Patient Revenue (NPR) saw a slight increase from Q3 2021, the gap between NPR and Total Operating Expense (TOE) continued to widen in Q4 2021. Statewide NPR increased by $52 million from Q3 to Q4 2021, while TOE increased by roughly $86 million within the same time frame.
- The high cost of labor continues to be a major contributor to the large increases in Total Operating Expense. For Q4 2021, statewide Payroll and Employee Benefits is 52% of TOE, and has increased roughly 26% since Q1 2019.
- The staffing crisis, resulting from an already critical nursing shortage, along with burnout, early retirements, relocations, career changes and fallout from vaccine mandates all contribute to the current situation where hospitals have to hire and pay travel nurses multiple times the current wage of permanent staff to keep operations running, even as the pandemic wanes.

Net Patient Revenue vs Total Operating Expense



Hospital Expenses (Percent Change since Q1 2019)



- A deeper dive into Total Operating Expense subcategories showed that Physician Payroll and Facility Payroll have increased 33% and 30%, respectively, since Q1 2019.
- Other Expense subcategory comprised 27% of TOE in Q4 2021. This included labor hired through staffing agencies (traveling nurses) or through purchased services (housekeeping, facility management, IT, professional services, etc.) for ongoing operations, along with utilities (gas, water, electricity), insurance, and management fees. Other Expense has increased 18% since Q1 2019.
- Hospitals continue to pay more for items and goods. Supplies Expense was about 18% of TOE in Q4 2021, and has increased 18% since Q1 2019.

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Volume Remains Depressed Except for Outpatient Setting

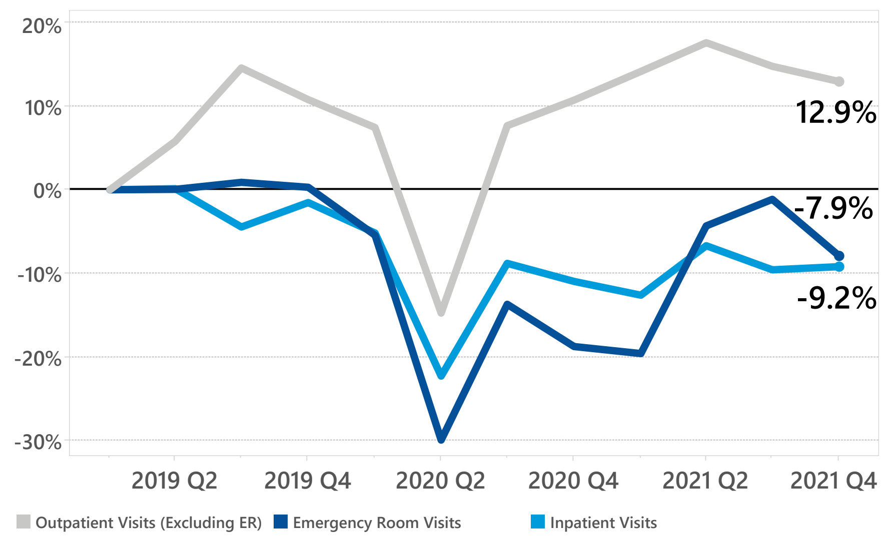
- Statewide Inpatient discharges in Q4 2021 increased only slightly from Q3 (0.4%). However, it continued to remain below 2019 pre-pandemic level (-9.2%). The Omicron variant has still had an effect on staff shortages, elective procedure cancellations, Average Lengths of Stay (ALOS), and discharge delays.

- Emergency Room visits saw a sharp decline from the previous quarter, showing a 7.3% decrease compared to Q3; there are still too many patients waiting for transfers to other settings constraining ER capacity and throughput.

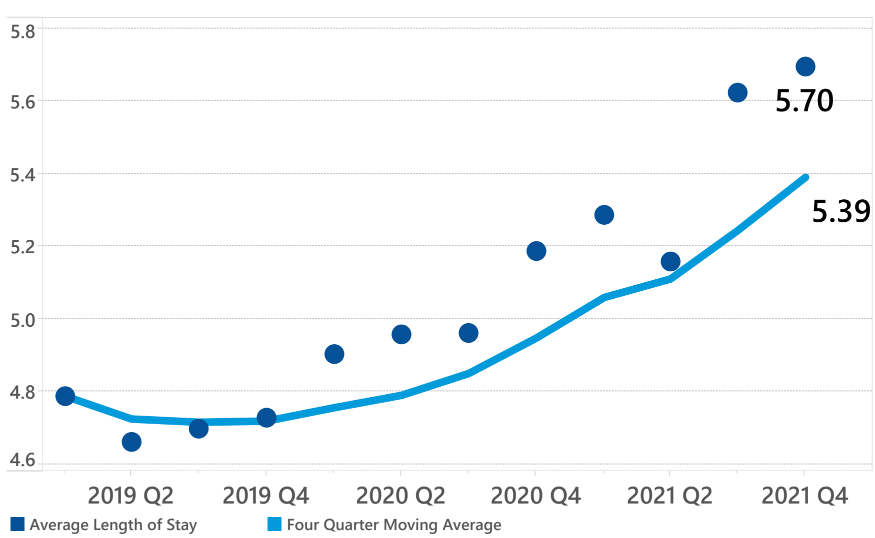
- Only Outpatient visits (excluding ER) remained strongly positive. While there was a small decline in Q4 2021 compared to Q3 (-1.6%), it was still a 12.9% increase compared to pre-pandemic levels. Increased utilization of telehealth was the main driver of this increase.

- When Inpatient and Outpatient were combined, 2021 Total Visits were up, 11.4% compared to 2020, and 4.5% compared to 2019.

Hospital Utilization (Percent Change since Q1 2019)



Average Length of Stay



- Average Length of Stay has increased dramatically over the past three years. In Q4 2021, ALOS at Oregon hospitals saw its highest rate yet, at 5.7 days. This reflected an increase of 19% since Q1 2019.

- The rolling four-quarter average ALOS for 2021 was 5.4 days compared to 4.9 days for 2020 and 4.7 days for 2019.

- Longer ALOS is due to hospitals treating more severely ill patients who required more intensive services due to earlier curtailment of elective procedures, delayed care, and general concerns about COVID-19. This contributes to both constraining revenues on a per patient basis while at the same time stressing staff and facility resources, increasing overall costs.

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