



Colorado Hospital Industry Update

1st Quarter 2023 Financial and
Utilization Trends



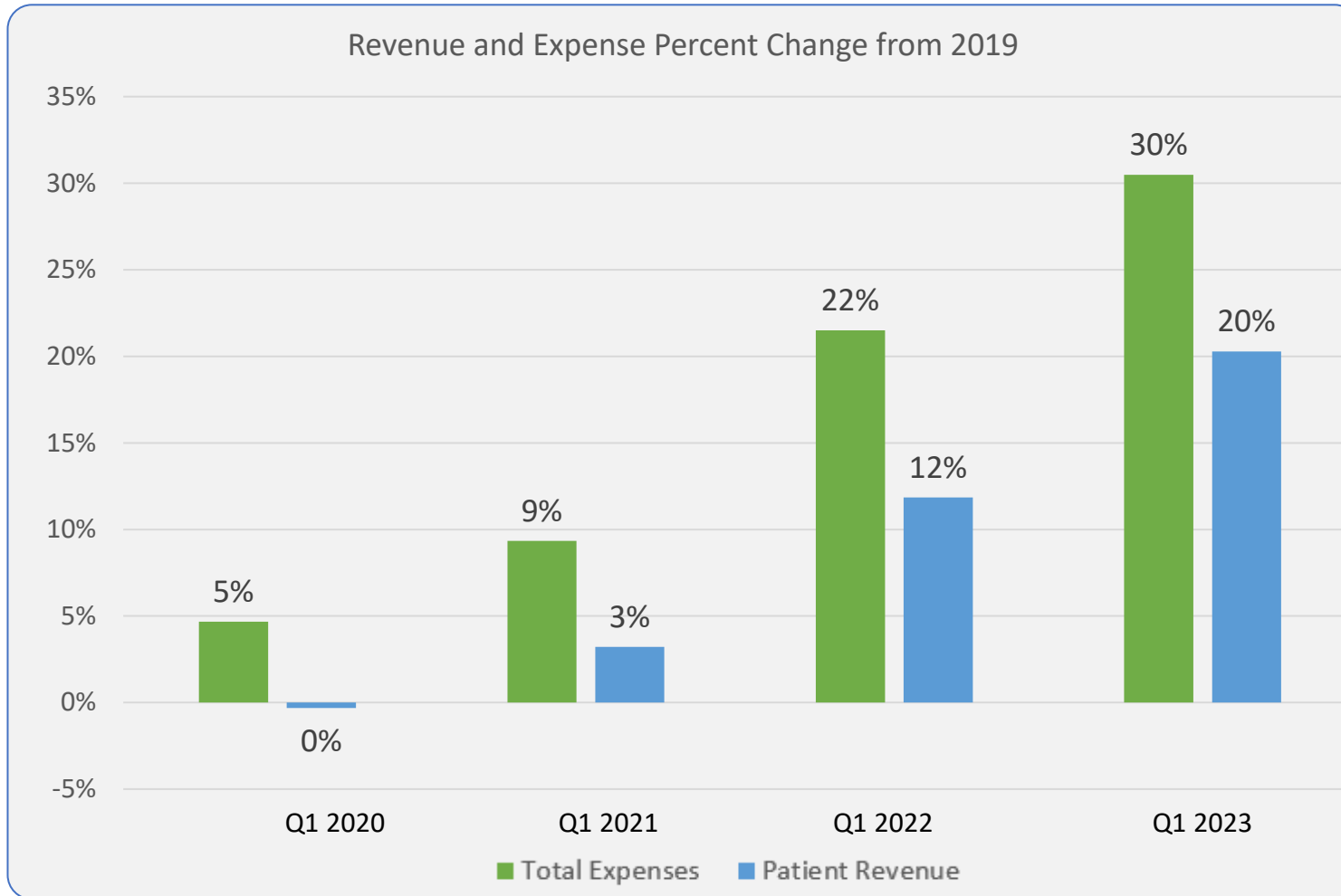


Overall Summary

- Since the start of the COVID-19 pandemic, Colorado hospitals and health systems have taken remarkable steps to care for their communities amid intense pressure on staff and resources.
- The financial and operational impacts over the last several years have been staggering. As hospitals, policymakers, and other health care leaders assess the current landscape, key findings about the financial state of Colorado hospitals from the beginning of the pandemic through March 2023 include:
 - **Margins have fallen significantly compared to pre-pandemic levels.** Operating margins in 2023 are 65% lower than pre-pandemic levels, following a 52% decrease in 2022, as increasing expenses continue to outpace revenues.
 - **Nearly half of all Colorado hospitals have negative operating margins.** For many hospitals, patient revenue is not covering the cost of patient care, requiring additional means of support, including local tax resources, and jeopardizing the ability to provide services for their communities in the future.
 - **Expenses trends for Colorado hospitals continue to rise at near double-digit rates and higher than other states.** Total expenses so far in 2023 are 30% higher than pre-pandemic levels, nearly 8% per year, driven by increases in staffing, medical supplies, pharmaceutical costs, and growing administrative costs to support regulatory requirements.
 - **Colorado hospitals are providing increasing support for community benefit, including charity care and uncompensated care for Medicaid patients.** Colorado hospitals are committed to providing free and subsidized care for patients in need in their communities, and at an increasing amount, totaling over \$4 billion since 2019.
 - **Hospital utilization and volumes have shifted throughout the pandemic and into 2023.** Hospital discharges and inpatient surgeries at Colorado hospitals are significantly lower than pre-pandemic levels. Patient days and length of stay are on the rise, indicating that patients more severe health needs and are experiencing delays in discharge.
 - **Hospitals have faced a serious financial toll, with no further relief in sight.** Hospitals have incurred unprecedented losses relative to pre-pandemic levels, approximately \$3.4 billion to date in 2023 with no end in sight, creating financial instability for the industry and constraining future investments to support Colorado's growth.
- These findings underscore the continuing financial and operational threats Colorado hospitals continue to experience since the start of the pandemic. Colorado hospitals focus resources on providing life-saving care and support for their communities while grappling with troubling and uncertain financial and economic challenges.



Expense Increases Outpace Revenue Increases

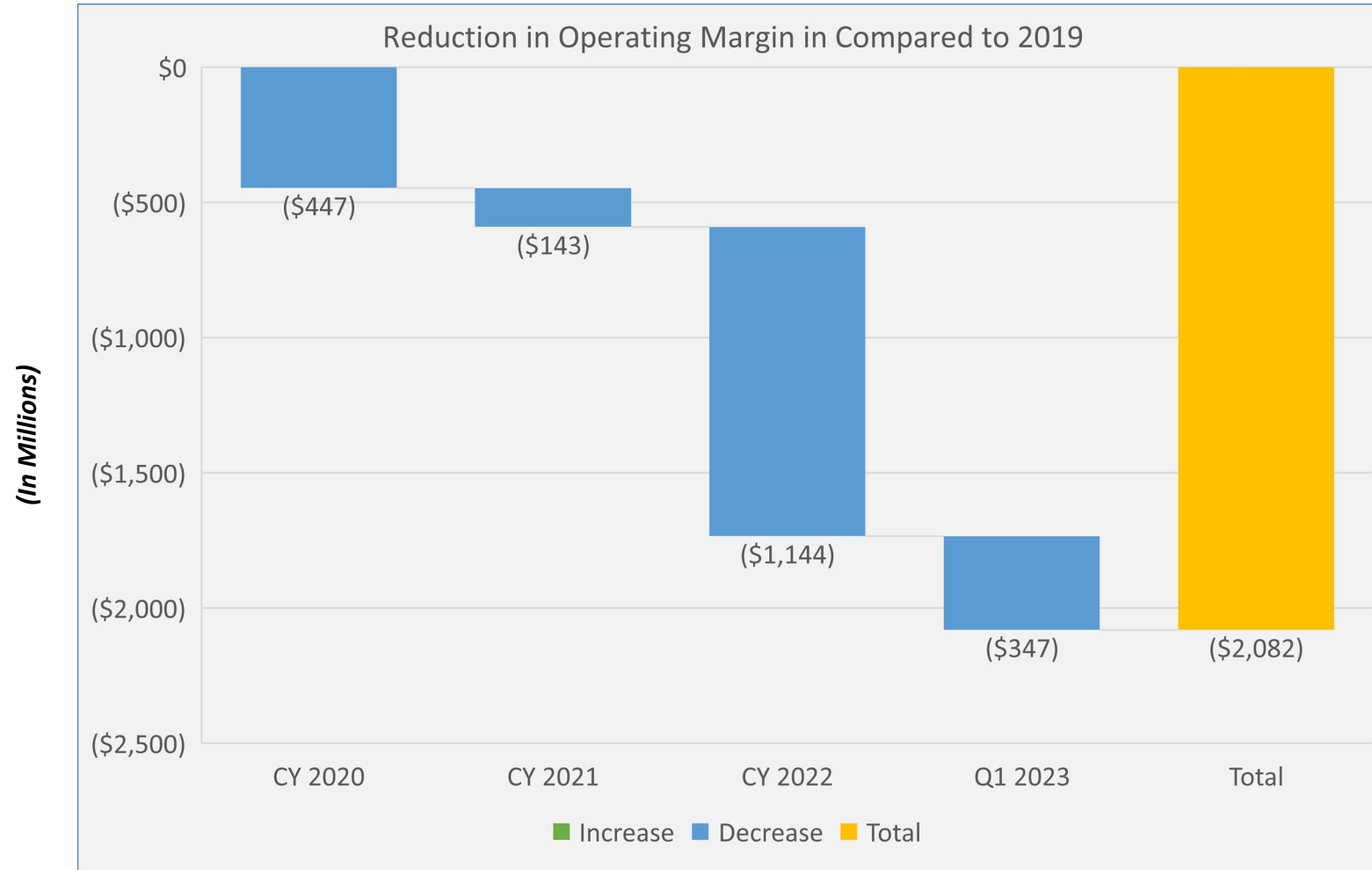


Key Takeaways

- Increases in operating expenses have been exceeding revenues since 2019, growing to 10%.
- The significant decline in operating margins constrains future investments, increases the need for alternative payment sources, such as local tax revenues, and creates more hospitals vulnerable for closure or reduction in services.



Operating Margins Continue to Decrease



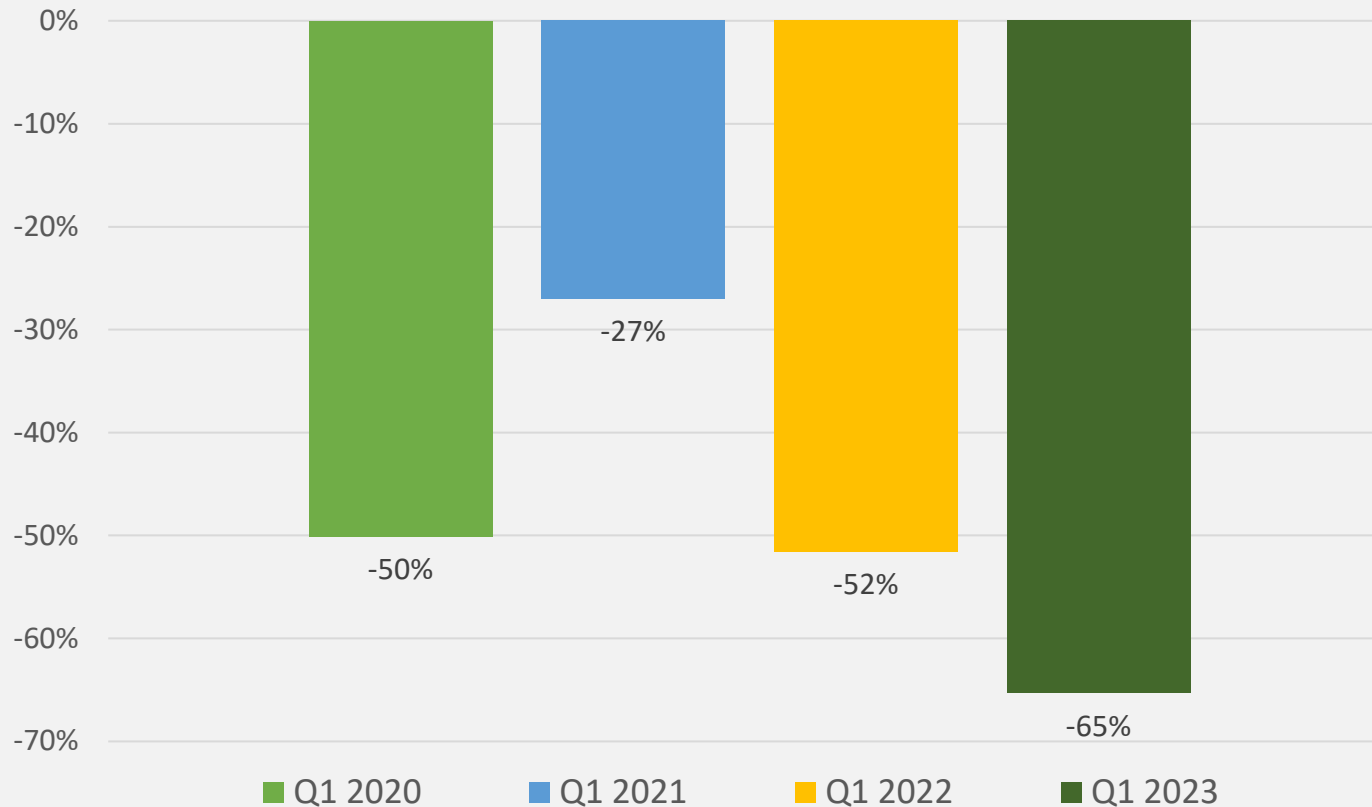
Key Takeaways

- Increases in labor, supply, and other operational expenses continue to outpace revenues, reducing operating margins by over \$2 billion since 2019.
- Operating margins have decreased by over \$300 million in the first quarter of 2023, highlighting the continued financial and operational pressures faced by Colorado hospitals.



Operating Margins Are Significantly Below Pre-Pandemic

Percent Change in Operating Margin Compared to 2019

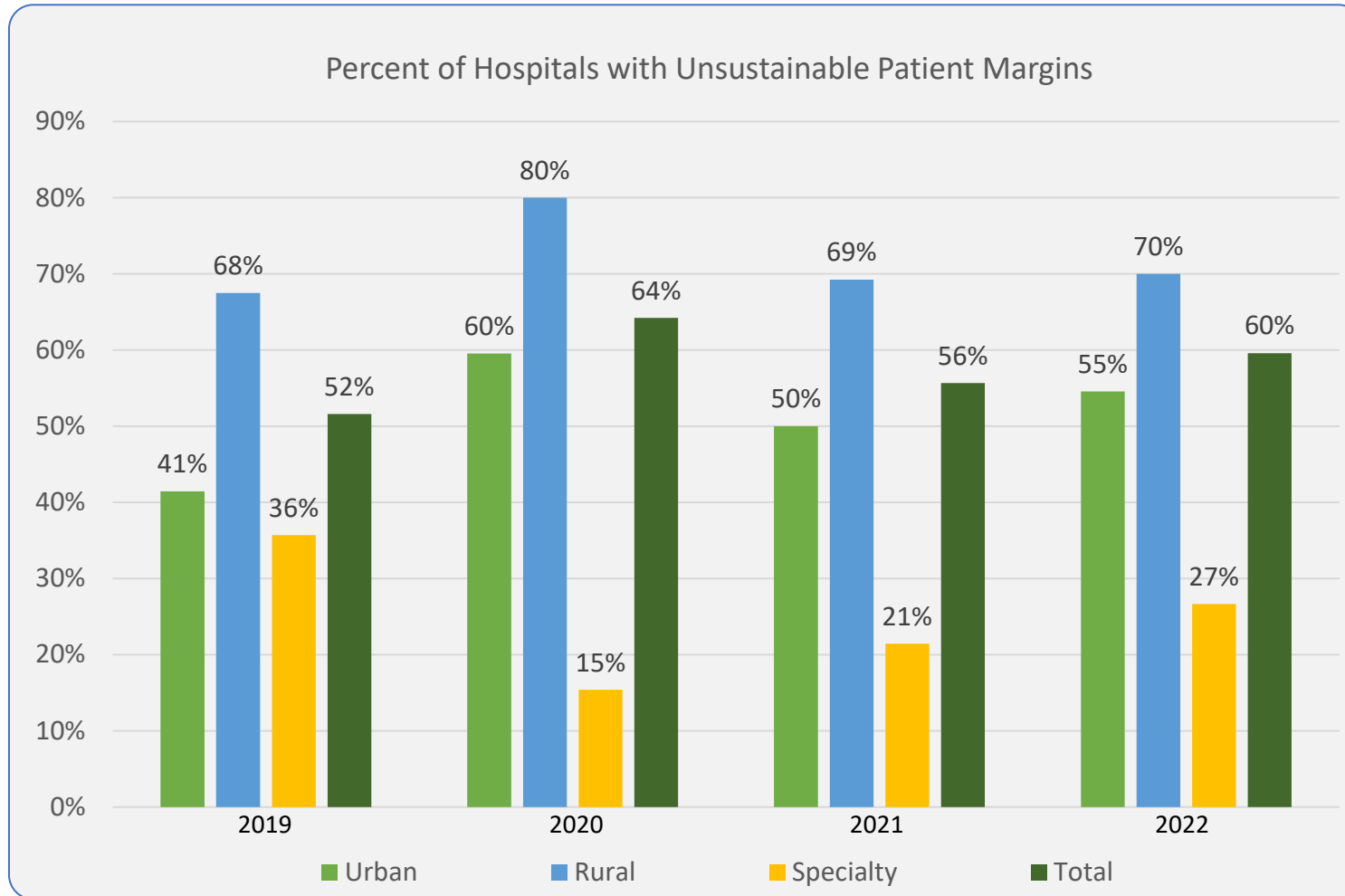


Key Takeaways

- Operating margins have fallen 65% in Q1 2023 from Q1 2019, a continuing trend each year since the start of the pandemic, near 50% on average.
- The significant decline in operating margins constrains future investments, increases the need for alternative payment sources, such as local tax revenues, and creates more hospitals vulnerable for closure or reduction in services.



More than Half of Colorado Hospitals Have Unsustainable Margins



Key Takeaways

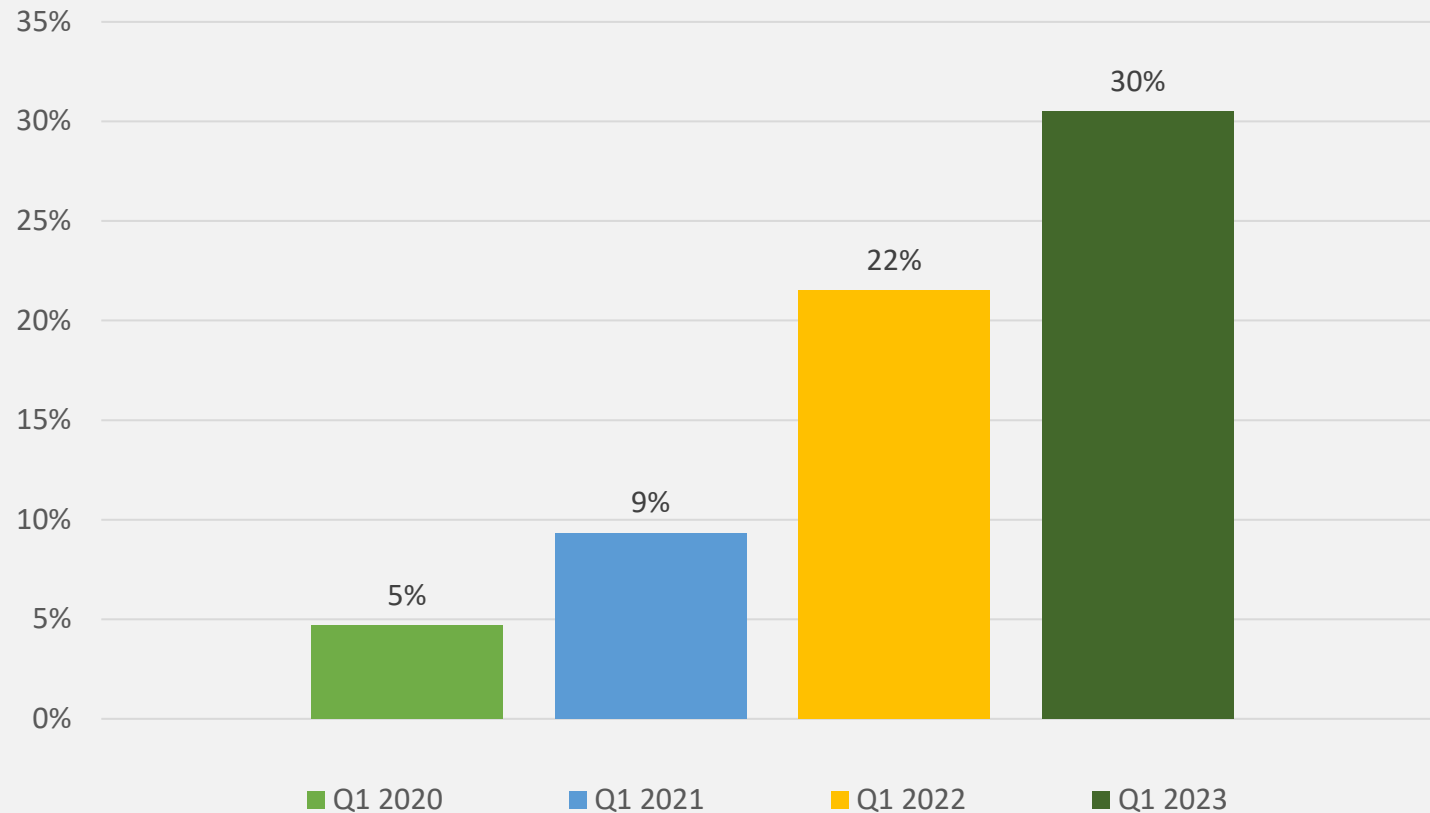
- More than half of Colorado hospitals operate with unsustainable margins and across all hospital types.
- Without sustainable margins, hospitals may not be able to replace facilities or equipment and increases the risk of reduction of services or closure.

2019 – 2021 data obtained from HCRIS database
2022 Combination of DATABANK and HCRIS data



Operating Expenses Continue to Rise

Percent Change in Total Operating Expenses Compared to 2019



Data obtained from CHA Databank reported through March 2023

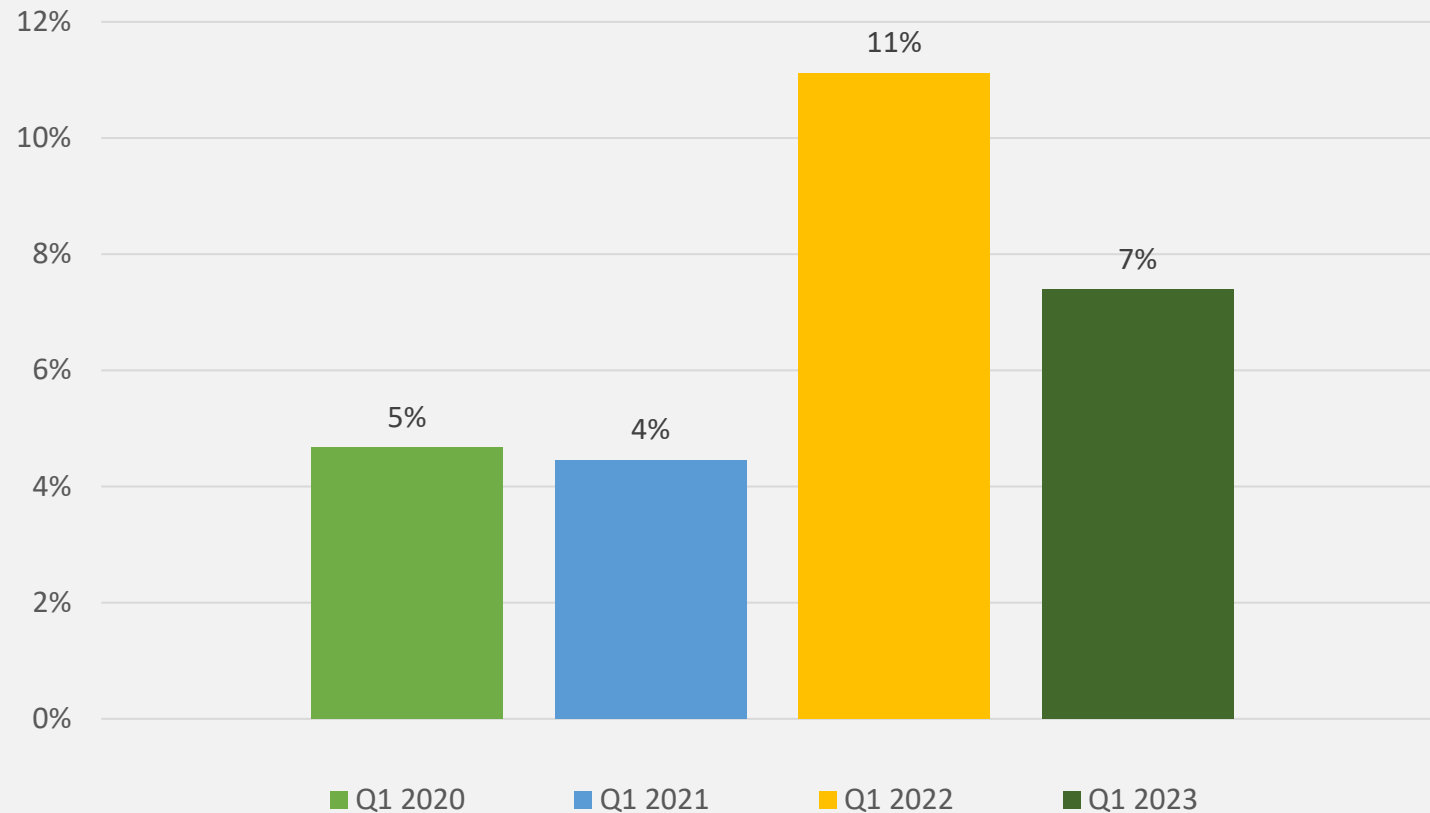
Key Takeaways

- Operating expenses have increased 30% in Q1 2023 compared to Q1 2019.
- Expenses for Colorado hospitals continue to rise at near double digits, surpassing national and local inflation rates.
- Colorado is experiencing higher expense trends than most places in the country. At the end of calendar year 2022, hospitals across the nation had a 20% increase in operating expenses compared to 2019.



Operating Expense Trends Near Double Digits

Year-Over-Year Percent Change in Total Operating Expenses



Key Takeaways

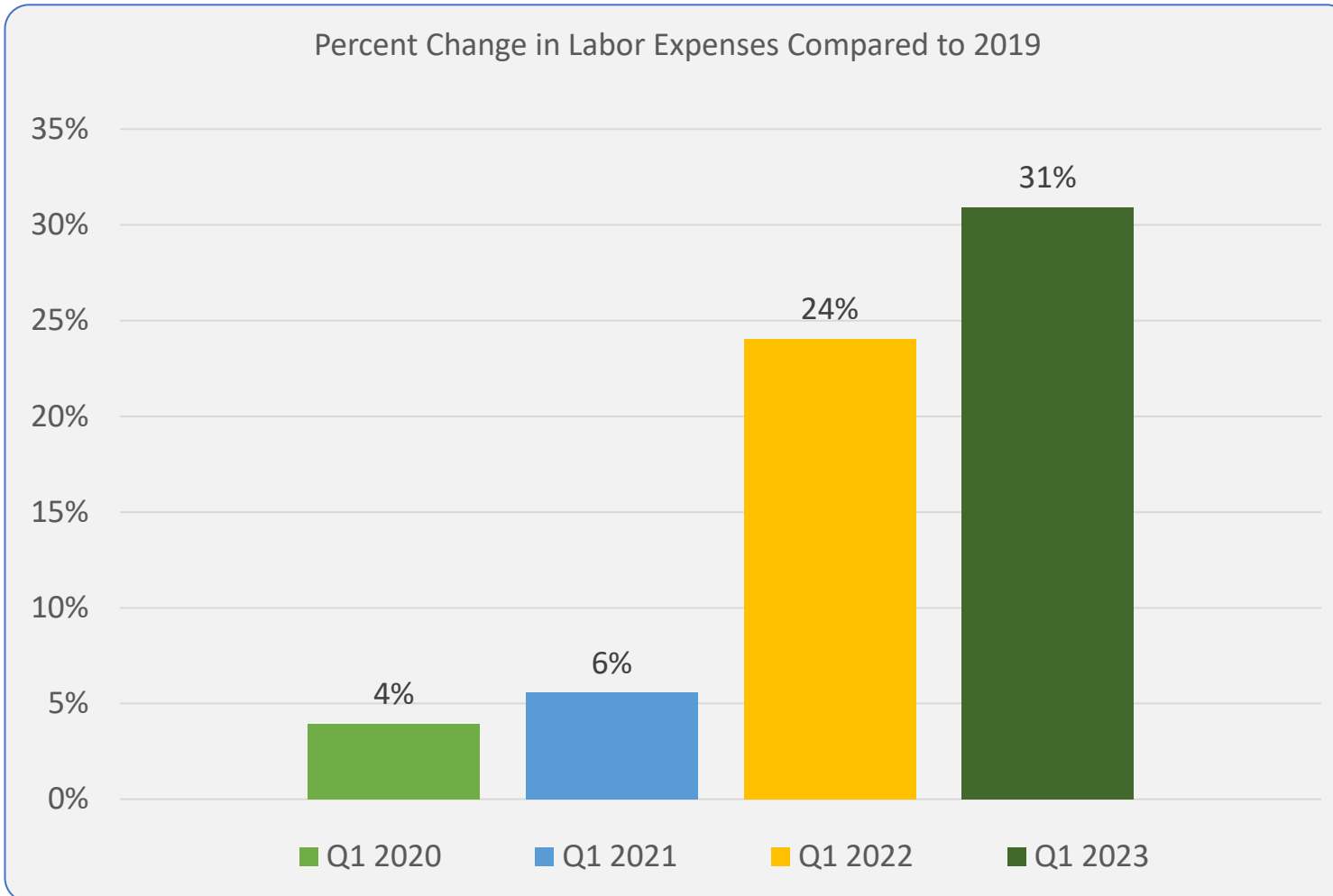
- So far in 2023, operating expense trends are significantly higher than historical levels, driven by increases in labor, supply, and high inflation pressures.
- Inflation in metro Colorado continues to exceed the U.S., reported at 5.7% in March compared to U.S. average of 5.0%.¹

Data obtained from CHA Databank reported through March 2023

¹ [As report in Denver Post](#)



Labor Expenses Continue to Increase



Quarterly comparison Data obtained from CHA Databank reported through March 2023

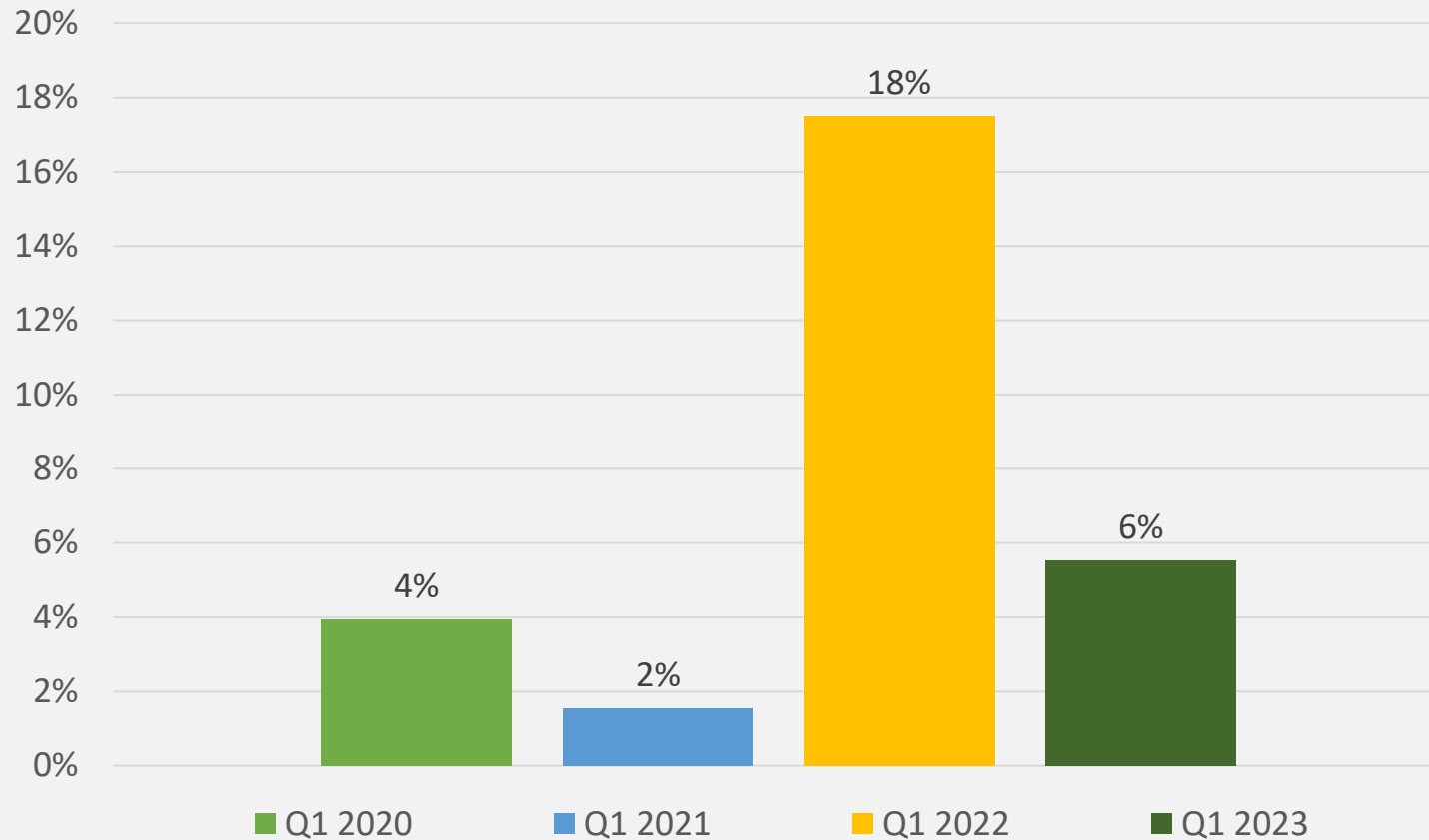
Key Takeaways

- After surging in 2022, labor expenses trends have begun to ease, but have increased over 31%, or nearly 8% per year, since 2019.
- According to Medicare cost report data, labor expenses increased on average 6.6% from 2015 to 2019, reinforcing Colorado's high cost and high wage growth pressures.



Labor Expenses Continue to Increase

Year-Over-Year Percent Change in Total Labor Expenses



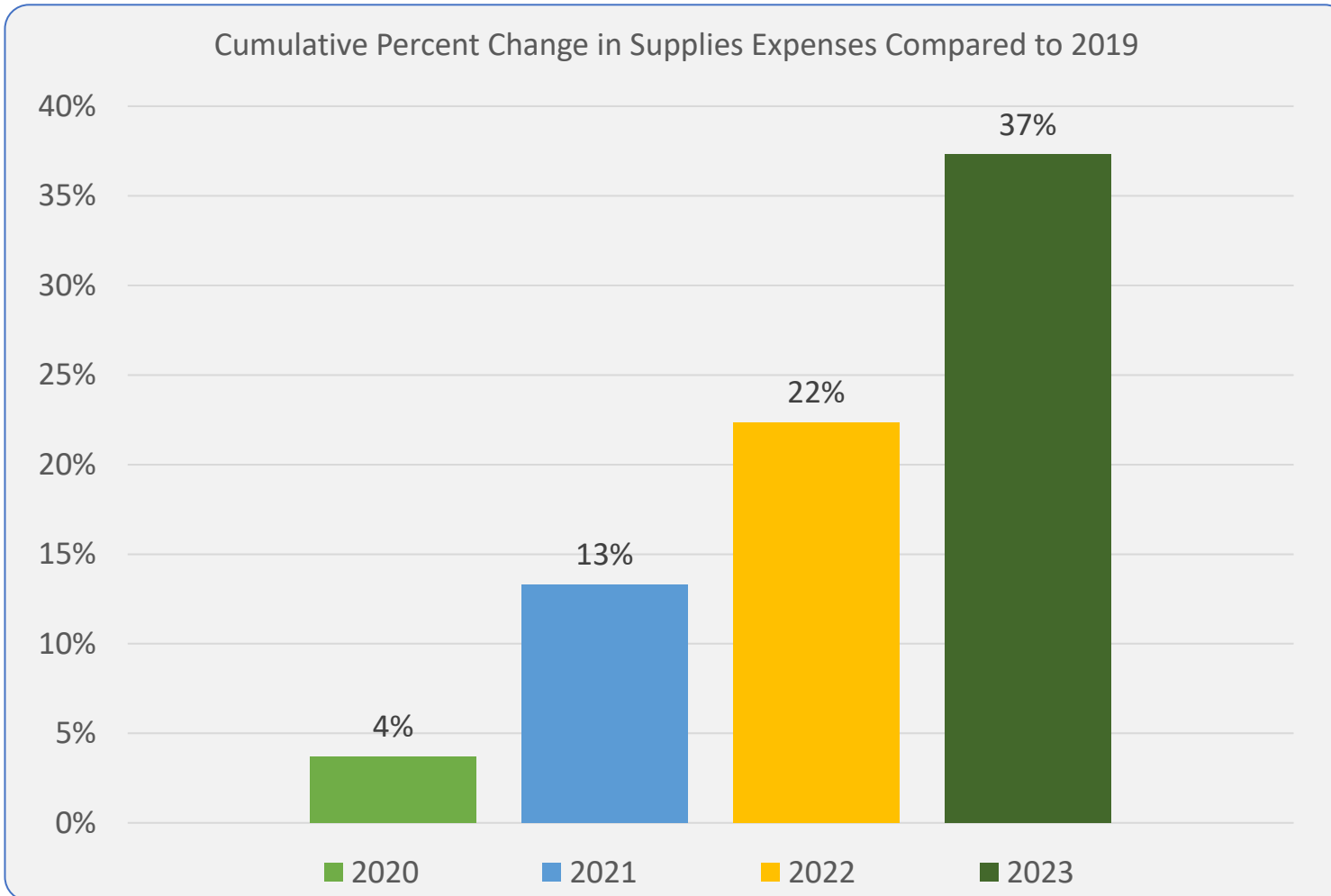
Key Takeaways

- After soaring to an increase of 18% in Q1 2022, labor expenses continue to rise in first quarter of 2023, up another 6%.
- Although outsourced and contracted labor costs have begun to ease in 2023, investments in staffing retention and recruitment continue to rise.

Quarterly comparison Data obtained from CHA Databank reported through March 2023



Supply Expense Trends Are Escalating



Quarterly comparison Data obtained from CHA Databank reported through March 2023

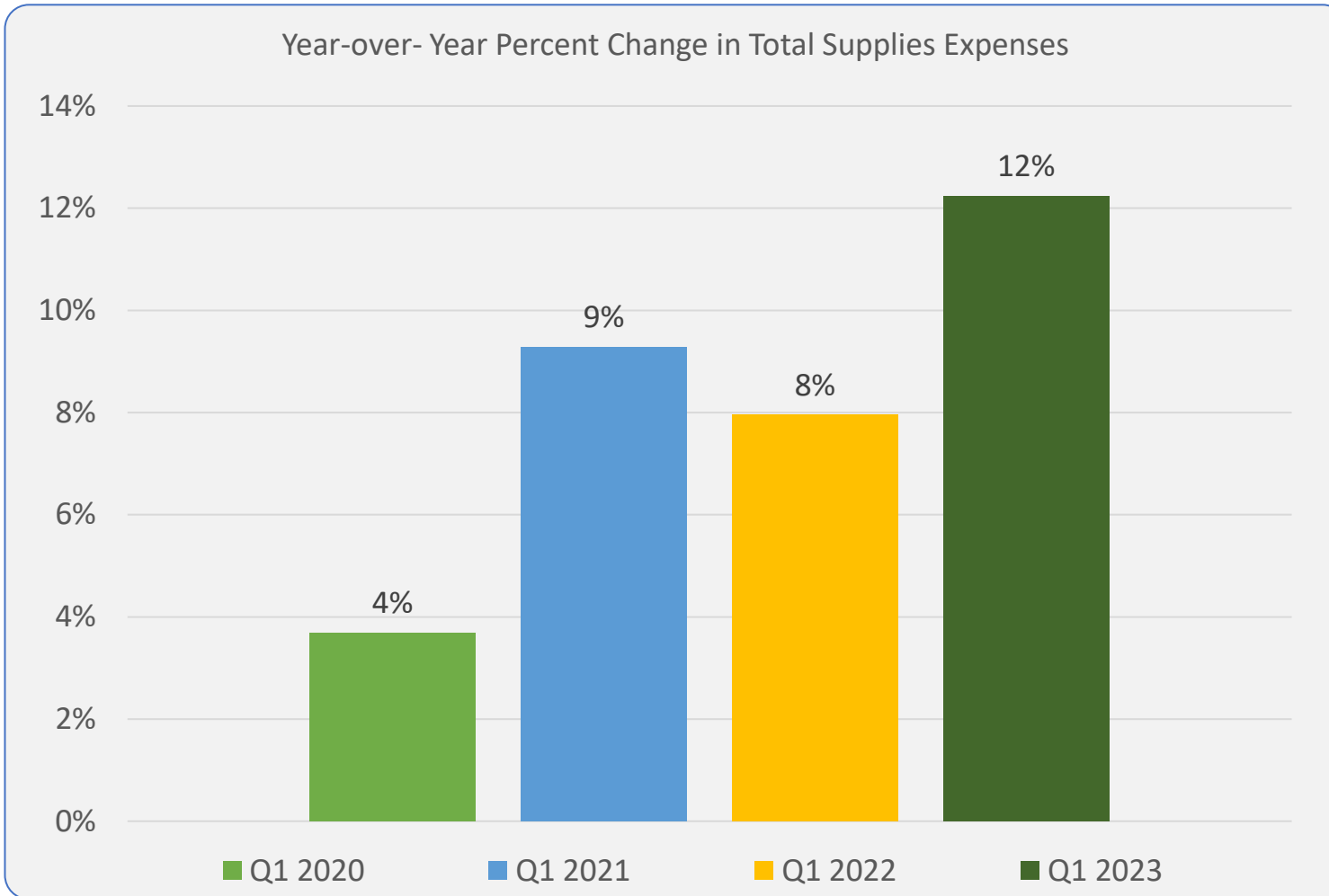
*Kaufman Hall releases monthly trends based on 900 hospitals

Key Takeaways

- Supply expense trends continue to rise, up nearly 40% since 2019, as hospitals respond to supply shortages, rising inflation, and higher patient days.
- At the end of 2022, Colorado supply expenses had increased 26% compared to 2019, considerably higher than the national average of 18%.*



Supplies Expense Trends Are Escalating



Key Takeaways

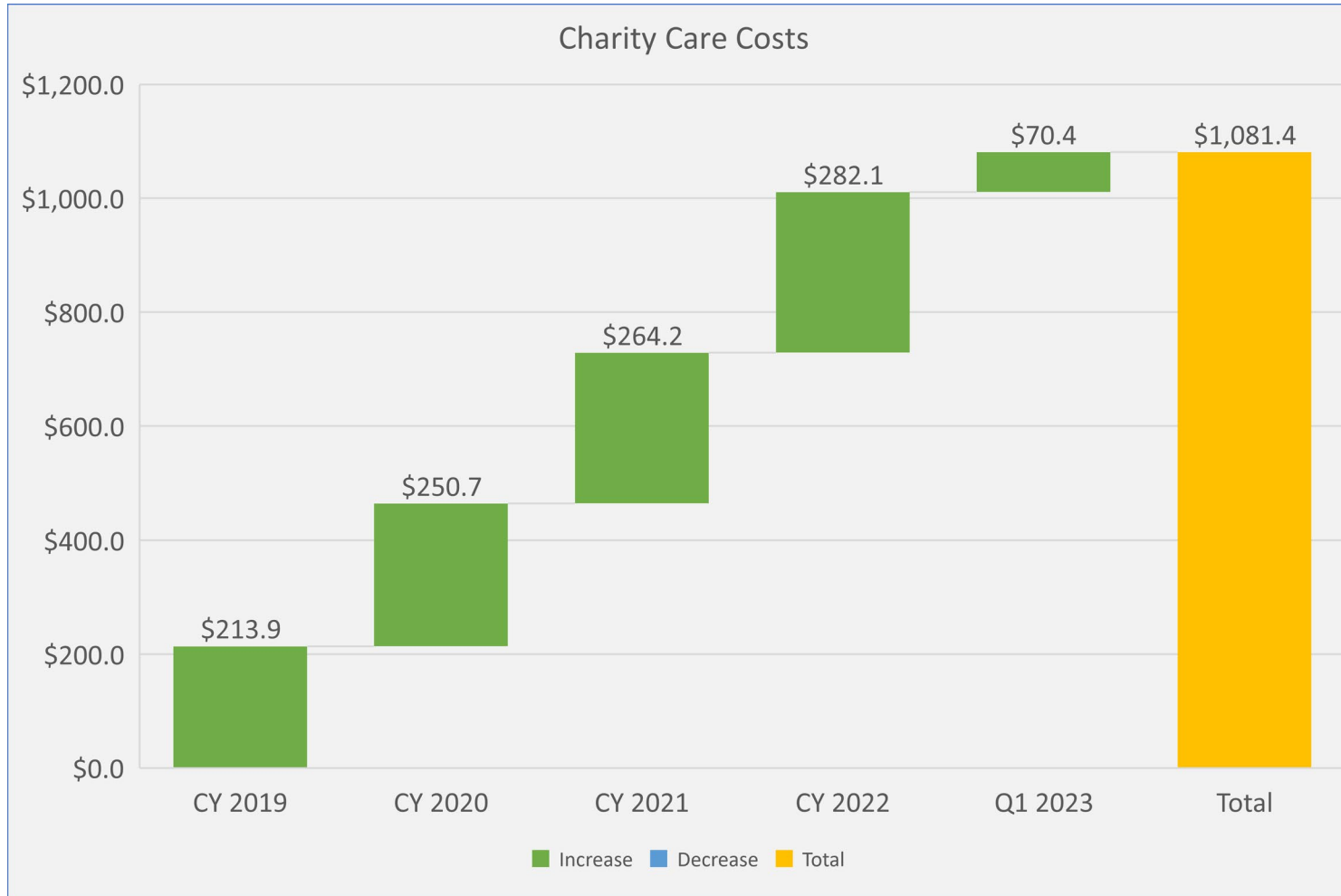
- Supply expenses are escalating in 2023, up over 12% from the first quarter of 2022, as hospitals respond to supply shortages, high inflation in Colorado, and caring for patients staying longer in hospital facilities.

Quarterly comparison Data obtained from CHA Databank reported through March 2023

*Kaufman Hall releases monthly trends based on 900 hospitals



Support for Charity Care Continues to Grow



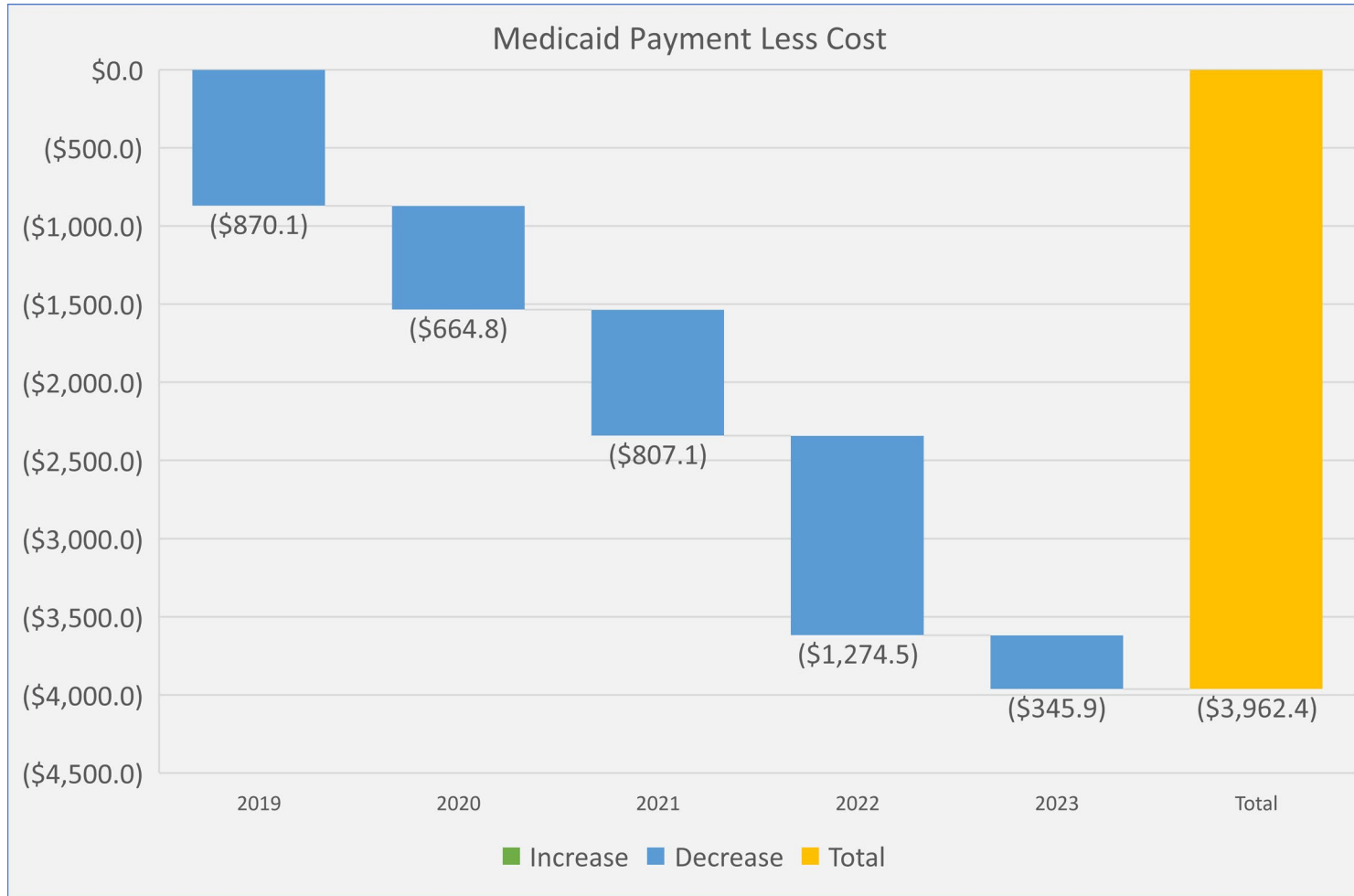
Key Takeaways

- Colorado hospitals have provided more than \$1.1 billion of charity care to support patients in need since 2019.
- Charity care provided by Colorado hospitals has increased 32% since 2019.
- With the implementation of Hospital Discount Care in 2022, charity care costs will continue to increase.

Source: 2019 – 2021 amounts from 2023 CHASE Annual Report
2022- 2023 Estimates Calculated from CHA DATABANK



Unreimbursed Medicaid Costs Are Increasing



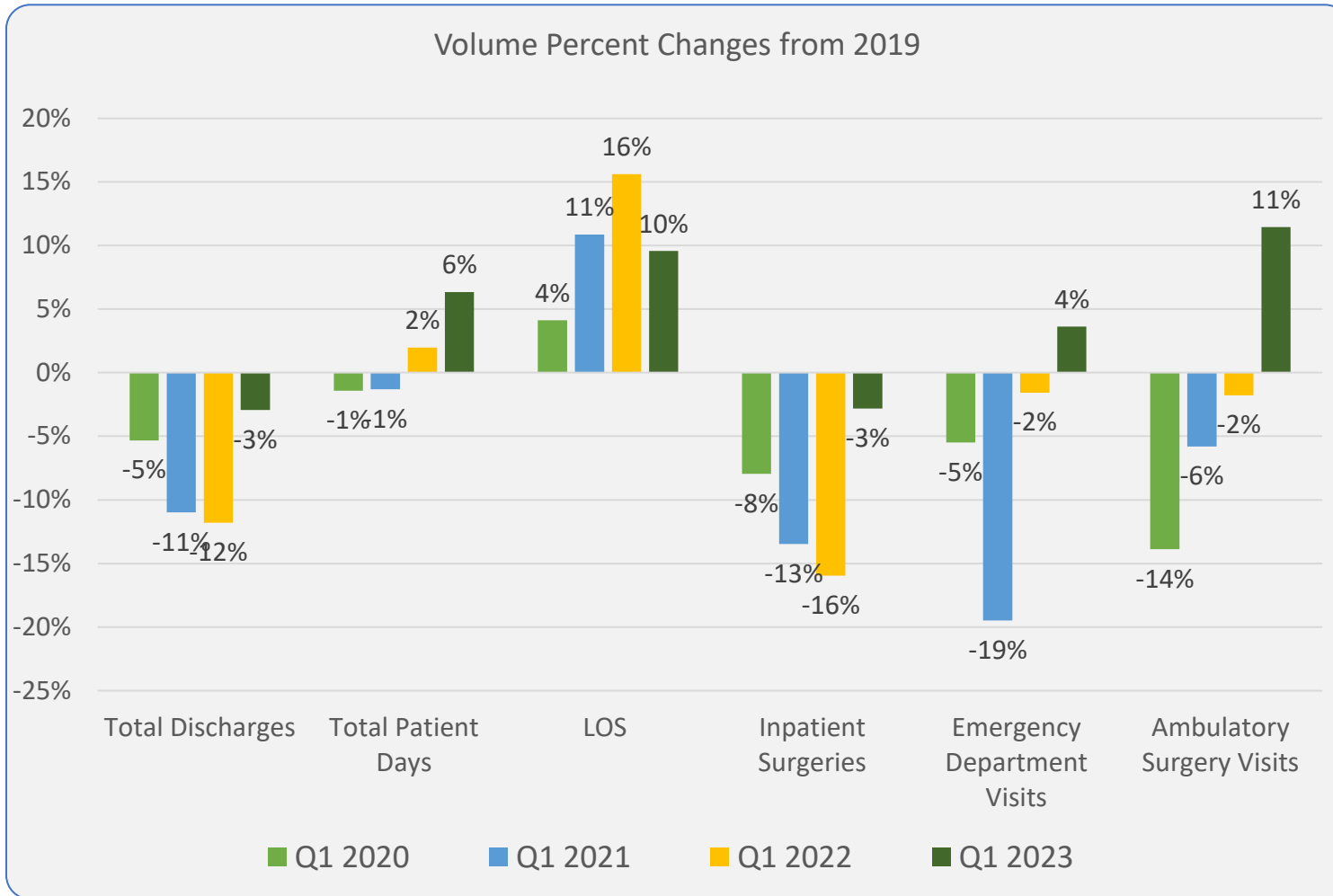
Key Takeaways

- Since 2019, hospitals provided over \$4 billion of support in unreimbursed care provided to the Medicaid population in Colorado.
- Uncompensated costs related to Medicaid continue to increase, due to increasing enrollment during the public health emergency and low reimbursement increases in the Medicaid program.

Source: 2019 – 2021 amounts from 2023 CHASE Annual Report
2022- 2023 Estimates Calculated from CHA DATABANK



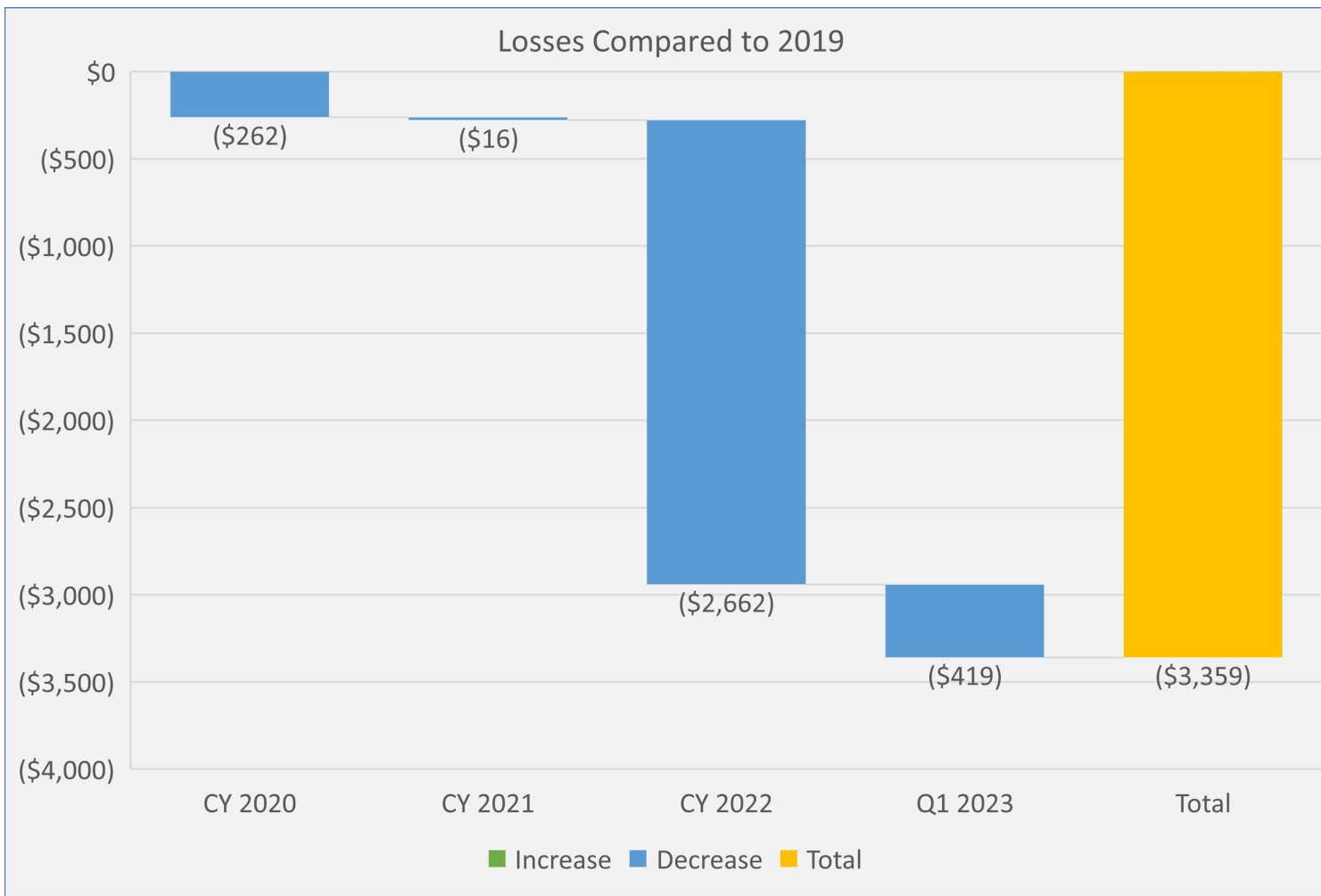
Utilization Trends Have Shifted Since Pre-Pandemic



Key Takeaways

- Length of stay continues to remain above 2019 levels due to the combined effect of increased patient days and lower discharges.
- ED visits and ambulatory surgery visits have rebounded in the first quarter of 2023 compared to 2019, but the cumulative amount over the last four years remains negative, highlighting potential longer-term implications of delayed and cancelled care throughout the pandemic.

Significant Income Reduction Since 2019



Key Takeaways

- Even as financial markets have recovered in the first quarter of 2023, income continues to fall from 2019 levels.
- In total since 2019, Colorado hospitals have seen a \$3.4 billion dollar reduction in income, constraining future investments and putting more hospitals in vulnerable financial condition.



Summary

- Recent economic conditions and health care policies are creating an unstable and vulnerable environment for the hospital industry.
- Operating margins continue to fall due to workforce challenges and high inflationary costs in Colorado.
- Most Colorado hospitals have unsustainable margins putting future investments and sustainability of services throughout Colorado communities at risk.
- Colorado hospitals are providing more charity care and support for unreimbursed Medicaid patients for patients in need.
- Utilization of services since the start of the pandemic has been significantly altered. While services have rebounded in some areas, there remains a cumulative reduction due to delayed and cancelled care.
- Patients in hospitals are experiencing longer patient length of stays due to higher health care needs and delays in getting patients placed into appropriate settings after discharge.