

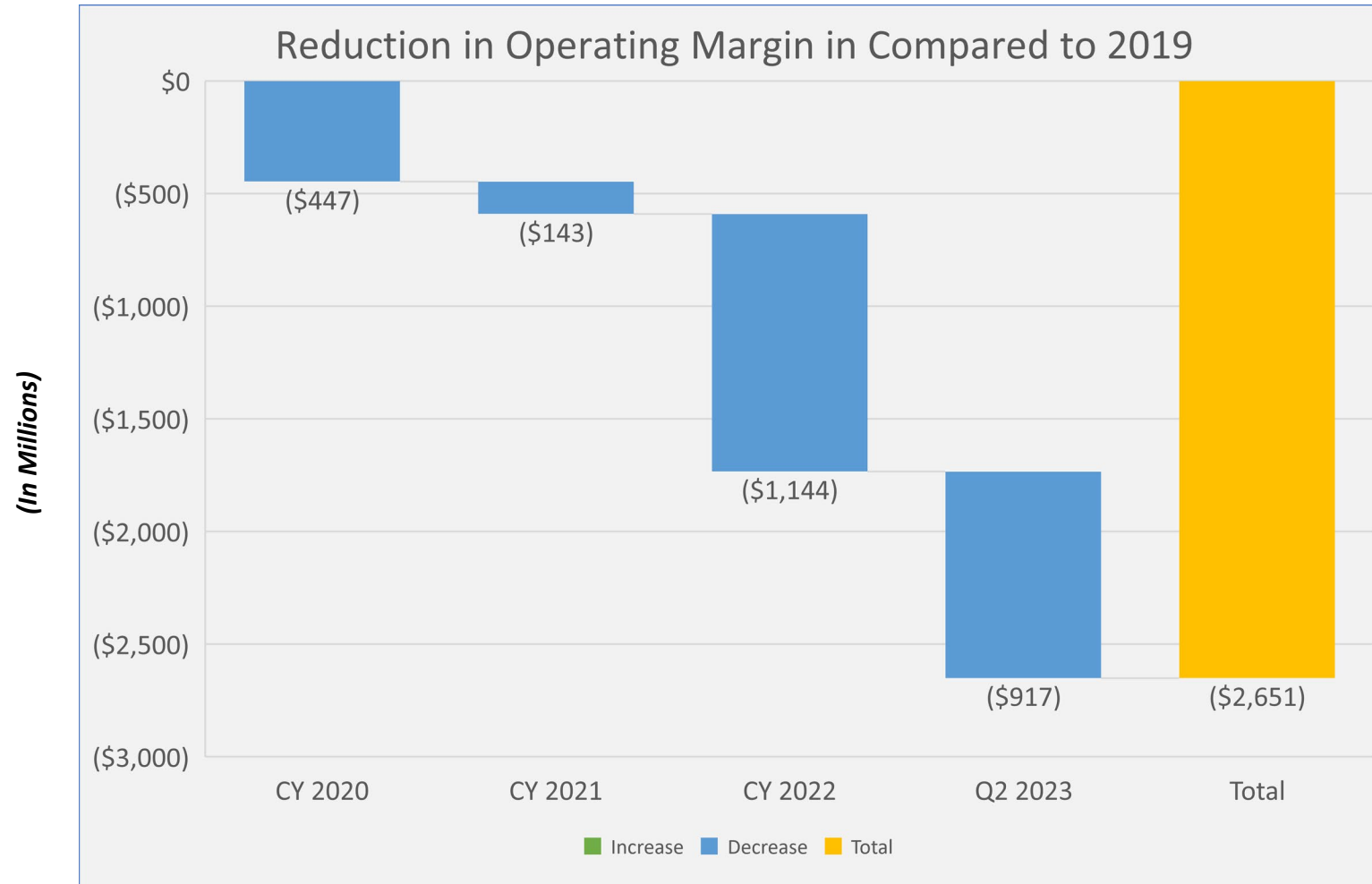


# Colorado Hospital Industry Update

3<sup>rd</sup> Quarter 2023 Financial and  
Utilization Trends



# Operating Margins Continue to Decrease



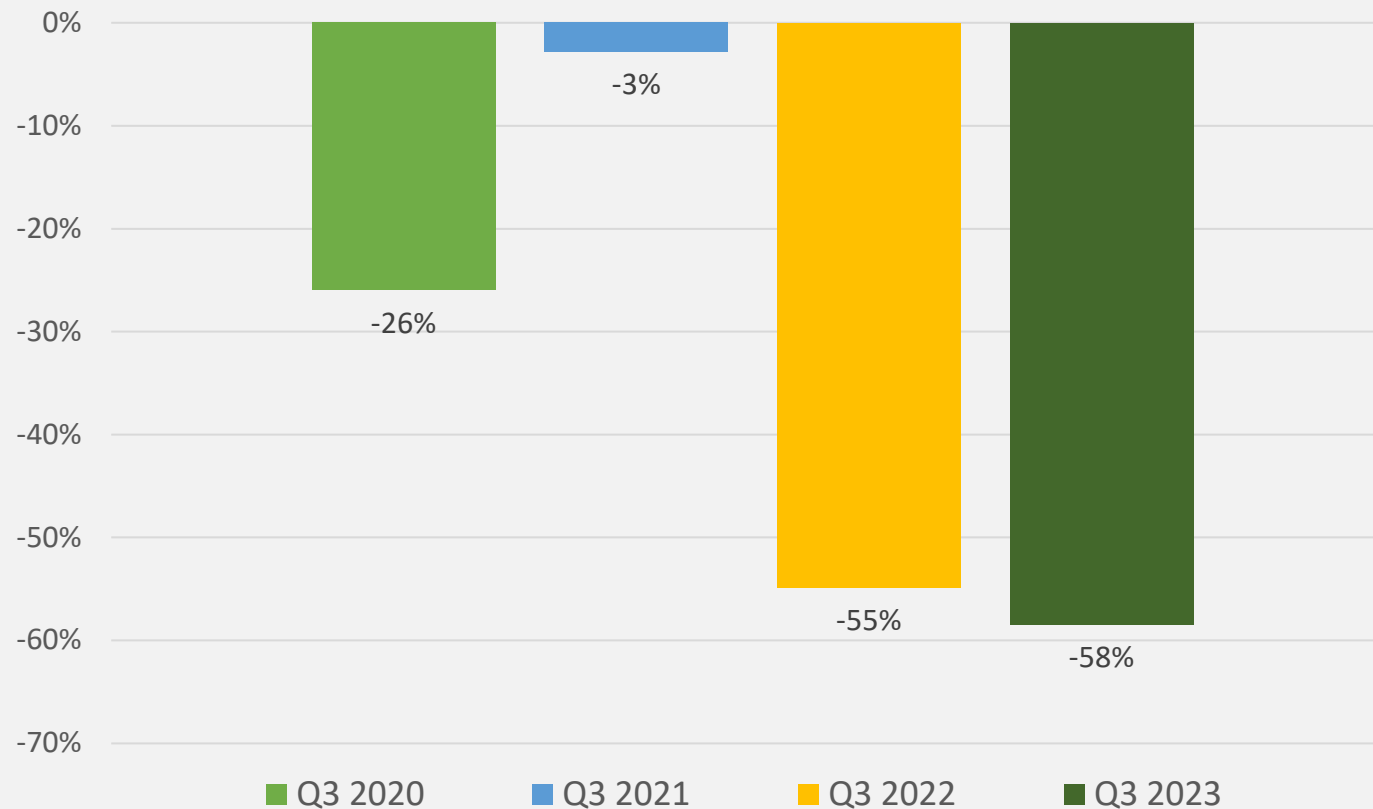
## Key Takeaways

- Increases in labor, supply, and other operational expenses continue to outpace revenues, reducing operating margins by over \$2.6 billion since 2019.
- Operating margins have decreased by over \$900 million in the nine months 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



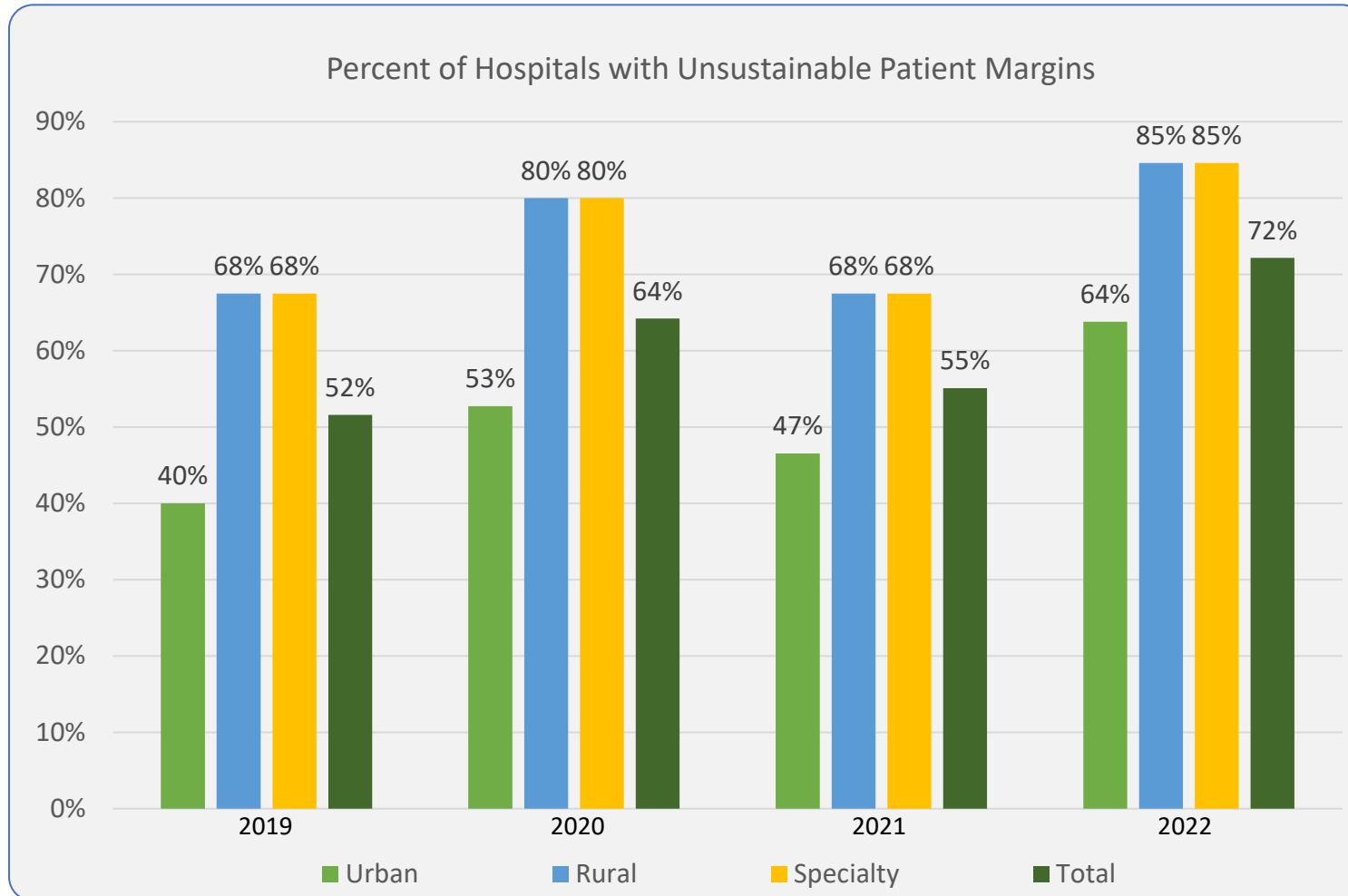
## Key Takeaways

- Operating margins have fallen 58% in Q3 2023 from Q3 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.





# Over Half of Colorado Hospitals Have Unsustainable Margins



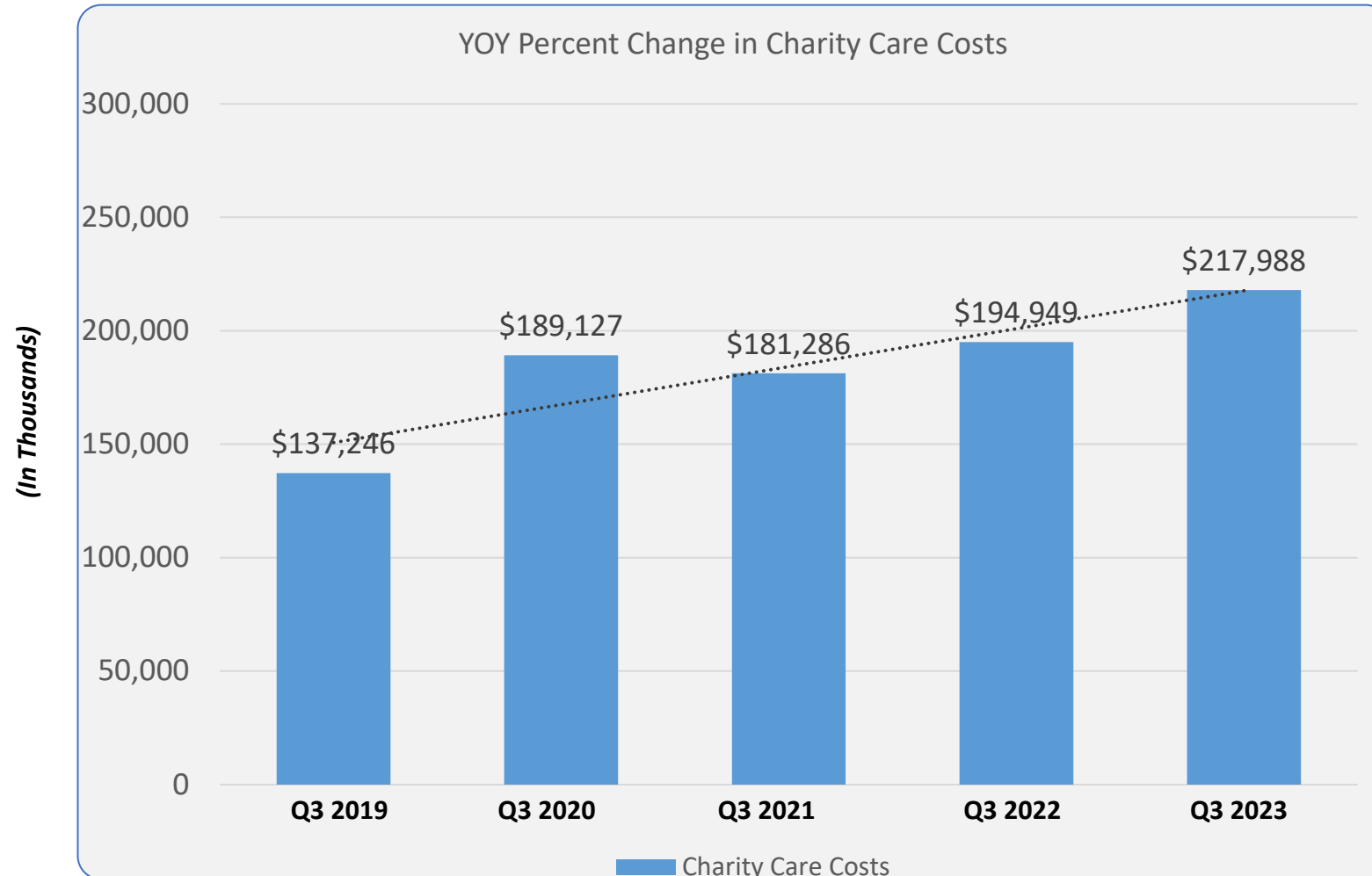
2019 – 2022 data obtained from HCRIS database

## Key Takeaways

- Nearly 75% of Colorado hospitals finished 2022 with unsustainable operating margins, highlighting further deterioration of the industry.
- Without sustainable margins, hospitals will not be able to replace facilities or equipment, and the risk of reduction of services or closure increases.



# Charity Care Increasing

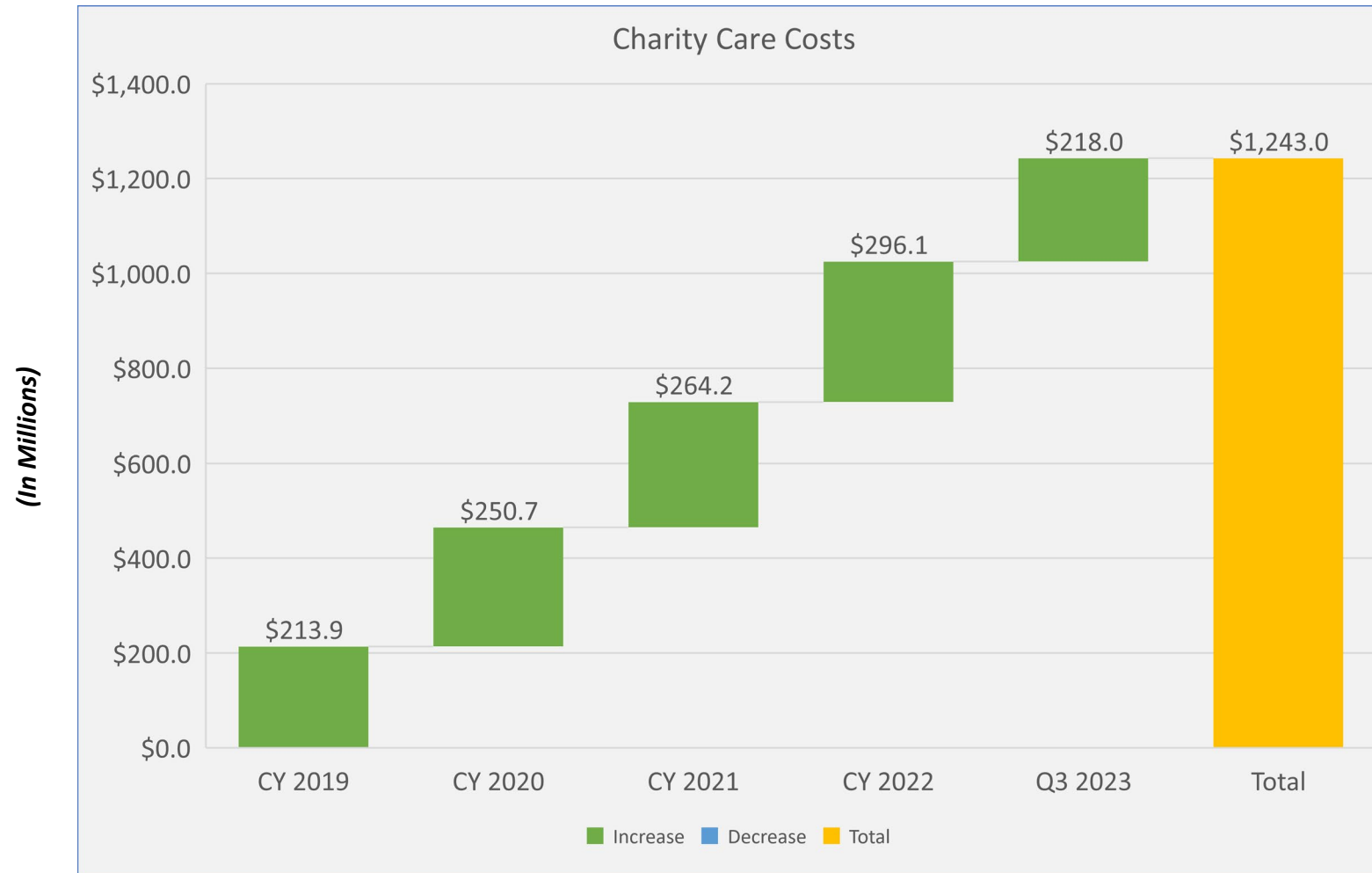


## Key Takeaways

- In the third quarter of 2023, charity care is up 17% from 2022 and up 59% compared to 2019.
- Charity care costs are increasing over 12% per year since 2019.



# Support for Charity Care Continues to Grow



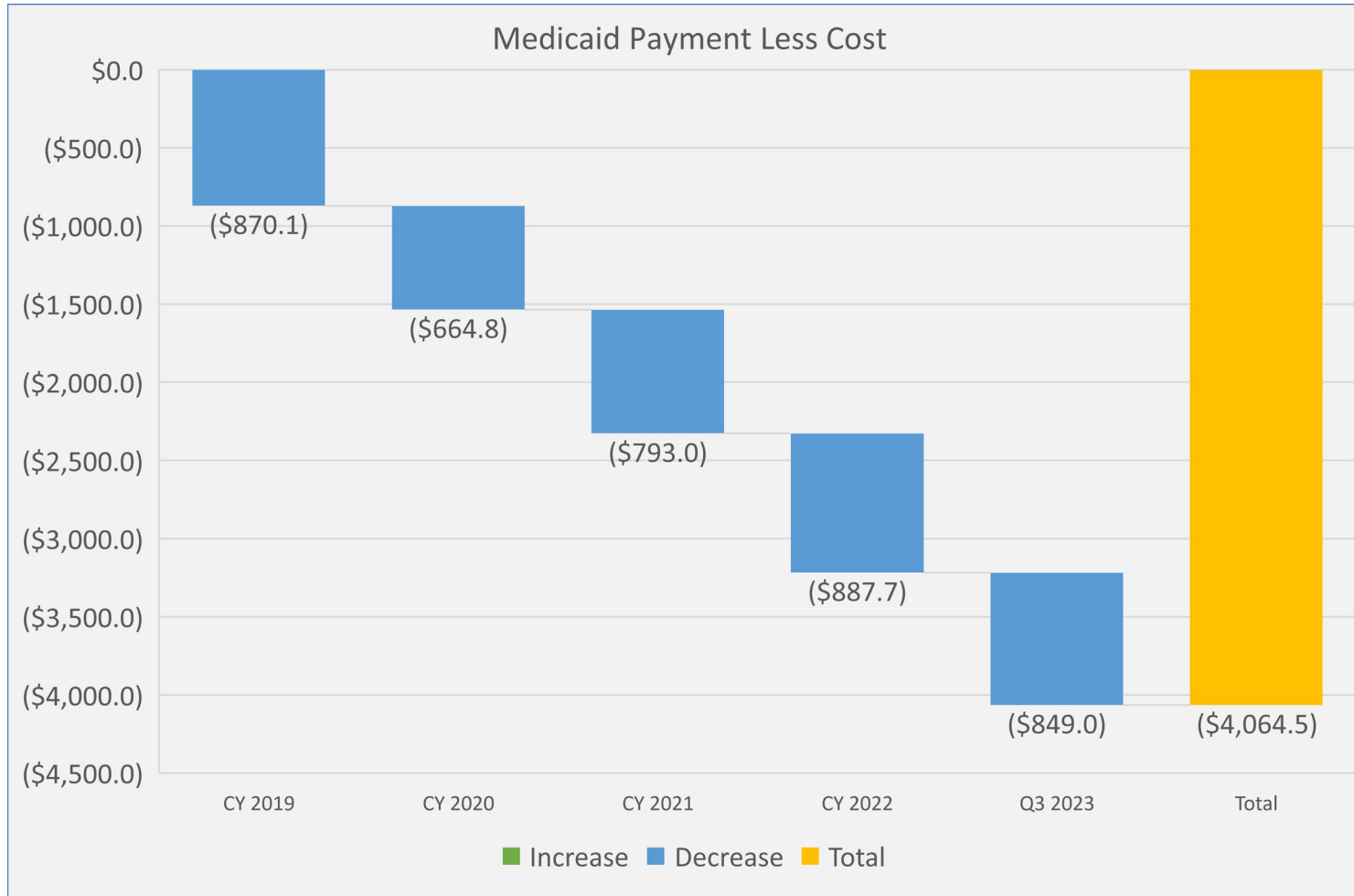
## Key Takeaways

- Colorado hospitals have provided over \$1.2 billion of charity care to support patients in need since 2019.
- Charity care provided by Colorado hospitals has increased 71% since 2019.
- Charity care costs will continue to increase with the implementation of the Hospital Discounted Care program in late 2022.

Source: 2019-22 amounts from 2023 CHASE Annual Report  
2023 Estimates Calculated from CHA DATABANK



# Unreimbursed Medicaid Costs are Increasing



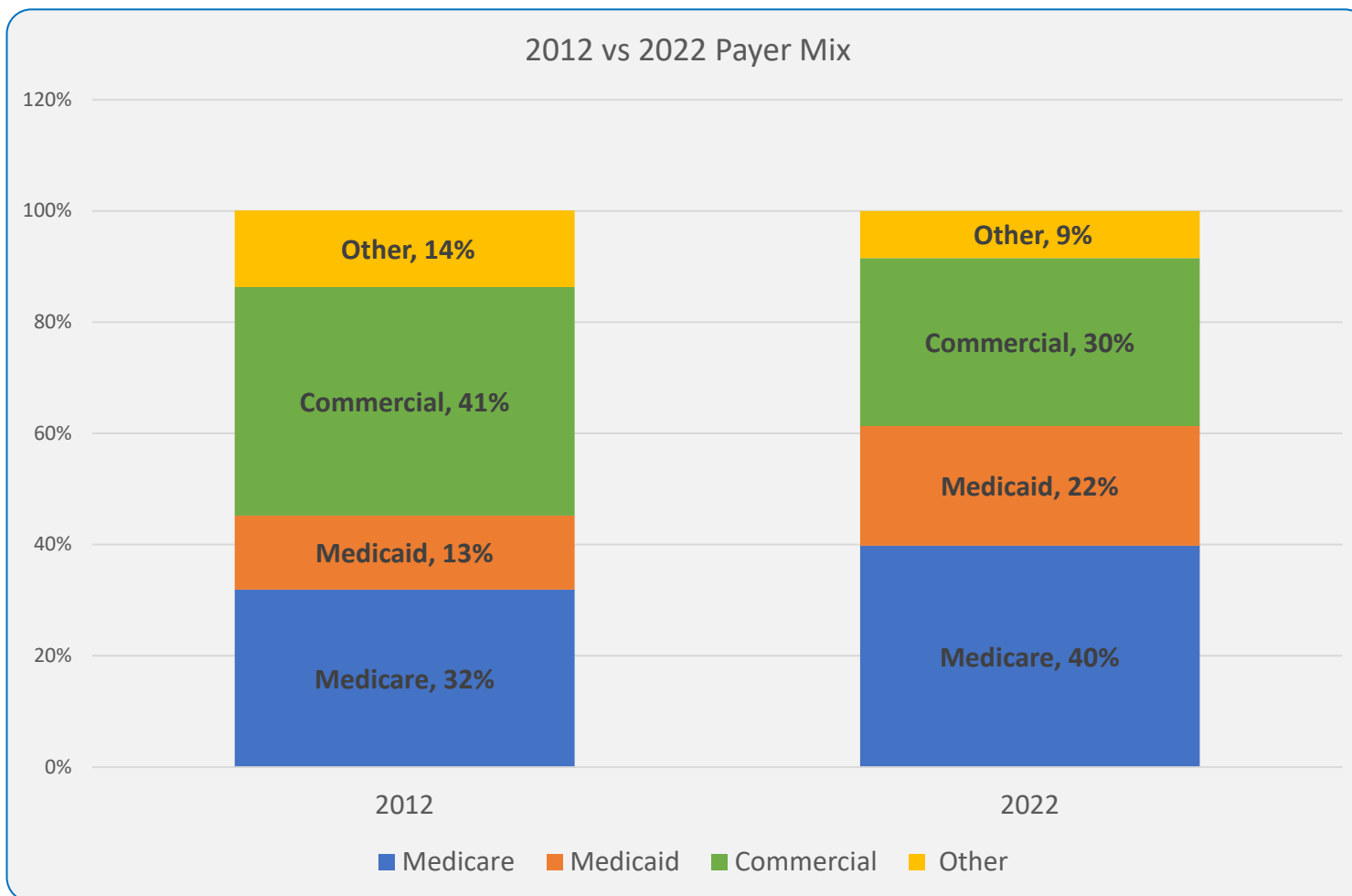
## Key Takeaways

- Since 2019, hospitals funded 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 – 2022 amounts from 2023 CHASE Annual Report  
2023 Estimates Calculated from CHA DATABANK



# Payer Mix Shift



## Key Takeaways

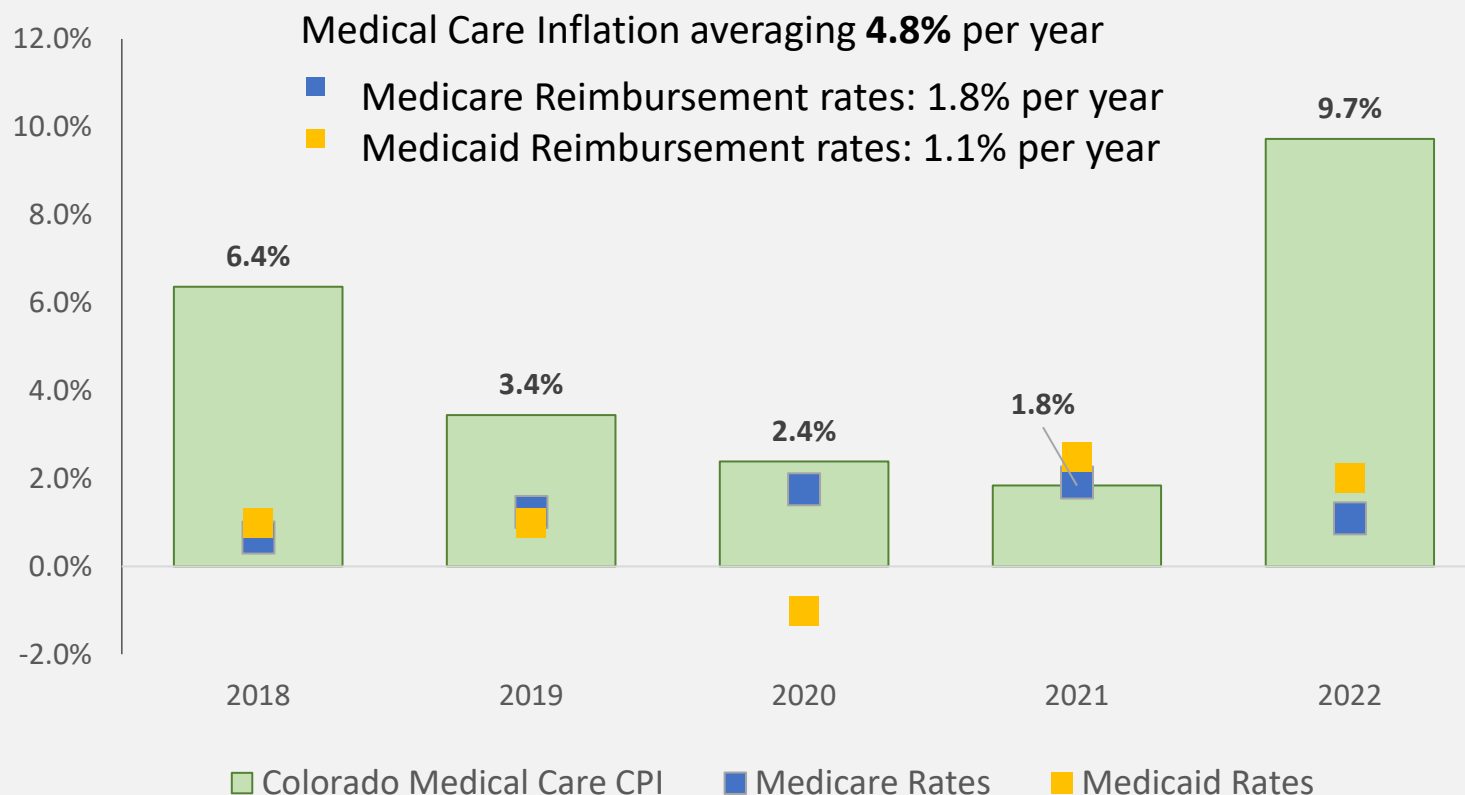
- The government payer mix is now over 62%, up from 45% 10 years ago, due to continued increases in Medicaid and Medicare populations.
- This shift in payer mix creates significant impact on hospital finances and operations as:
  - Reimbursements are less than cost and
  - Patients have higher health care needs and health care costs than commercial enrollees.





# Government Payer Rate Changes vs. Inflation

## Inflation Compared to Government Payer Reimbursement Changes



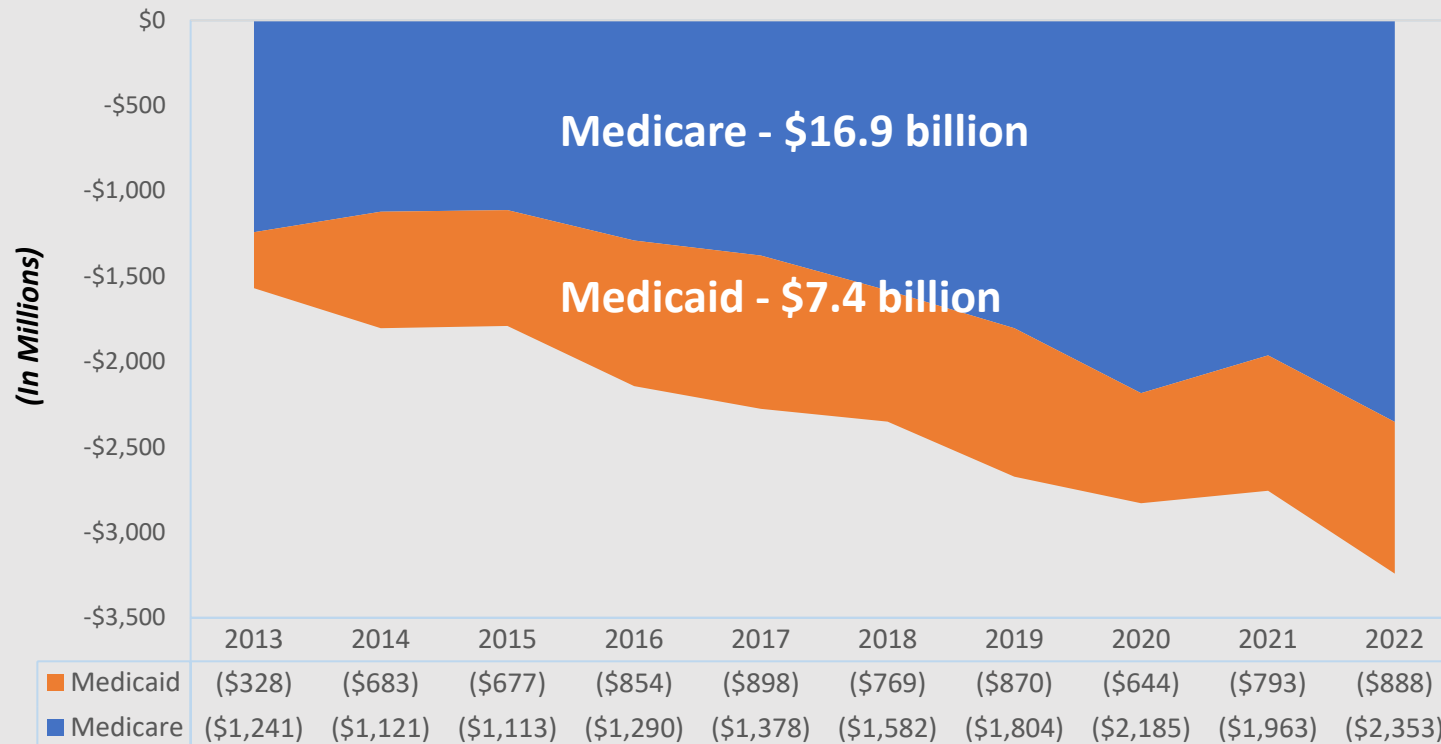
## Key Takeaways

- Medicare and Medicaid payment rates have not kept up with inflation during the last five years, exacerbating overall payment shortfalls compared to costs.
- In 2022, payment rate increases for Medicare and Medicaid were near/ lower than 2% compared to almost 10% inflation for medical care.



# Shortfall in Government Payer Reimbursement

Under Reimbursement of Medicare and Medicaid



- Medicare and Medicaid reimbursement does not cover the cost of caring for patients, requiring commercial payers to cover the shortfall.
- In 2022, the amount totaled over \$3.2 billion.
- Over the past 10 years, the amount totaled over \$24 billion and has increased 206% during that time.

Data obtained from 2024 CHASE Annual report



# 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.