

# Q2 2023 Oregon Hospital Utilization and Financial Analysis



# Key insights



- Many hospitals are still feeling the ripple effects of the prolonged negative financial conditions. While margins and revenue showed some signs of improvement from the last quarter, posting a three-percentage point increase in Median Operating Margin to an aggregate of 1%, hospitals' margins are still well below healthy levels.
- Patient volumes increased in all settings: inpatient, outpatient and emergency department. Due to the extended Medicaid redetermination process in Oregon, Medicaid caseload is not dropping as rapidly as it is in other states.
- The Payroll and Benefits category year-over-year increase was 3% for Q2 2023, compared to 13% and 12% for the same periods in 2022 and 2021, respectively.
- Average Length of Stay (ALOS) in Q2 2023 is under five days for the first time since Q2 2021.

**The numbers and figures in this report are based on a DATABANK download from Aug. 23, 2023. Pioneer Memorial was excluded due to unavailability of data. Shriners Hospital for Children was excluded due to its unique financial model which makes comparisons with community hospitals difficult.**

# Margins

## Median Operating Margin vs Median Total Margin

- **Q2 2023** marks the first quarter where Median Operating Margin and Median Total Margin were both in positive territory since Q4 2021, ending the five-quarter streak of overall negative quarterly financial performance. Still, margins remain below pre-pandemic levels.
- **Q2 2023 Median Operating Margin** saw a notable improvement from the previous quarter, increasing by 3 percentage points to 1%.
- **Eight out of 12** hospital systems (operating more than one hospital in the state) and nearly 57% of all Oregon hospitals had positive Operating Margins in Q2 2023.
- **Median Total Margin**, which includes investment income, has increased for four consecutive quarters. Q2 2023 saw an increase of 1.4 percentage points from the previous quarter and is now at its highest level in two years.

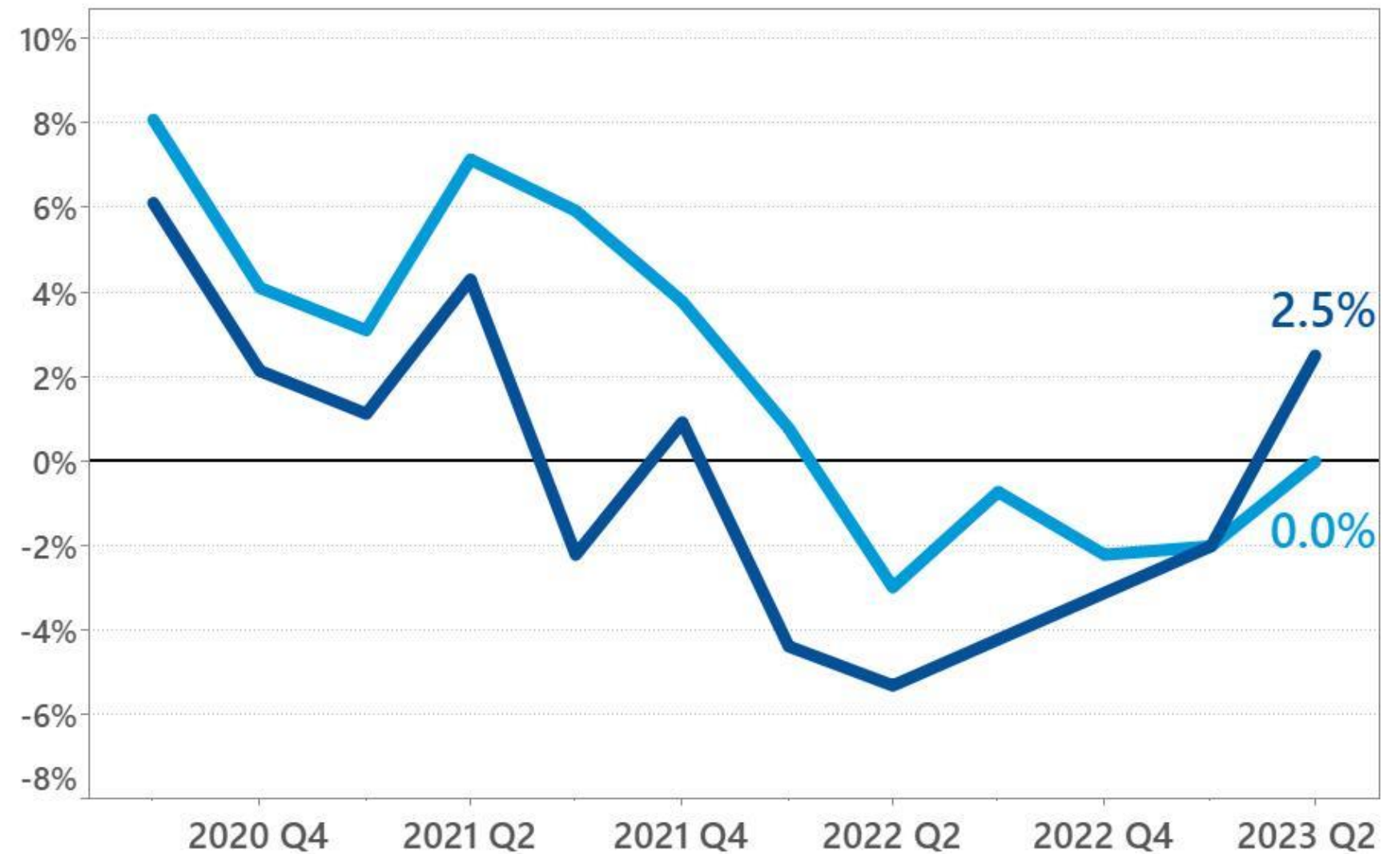
Median Operating Margin vs Median Total Margin



## DRG hospitals vs rural hospitals

- **Q2 2023 Operating Margins** for DRG hospitals showed them outperforming rural hospitals for the second quarter in a row. While the gap between DRG hospitals and their rural counterparts in Q1 2023 was marginal, it widened in Q2 2023 as the Median Operating Margin for DRGs rose to 2.5% vs. Rurals at -0.03%.
- **Historically, DRG** hospitals have had greater financial success than their rural hospital counterparts. For Q2 2023, 65% of DRG hospitals reported a positive operating margin compared to only half of rural hospitals.

Median Operating Margin  
DRG vs Rural





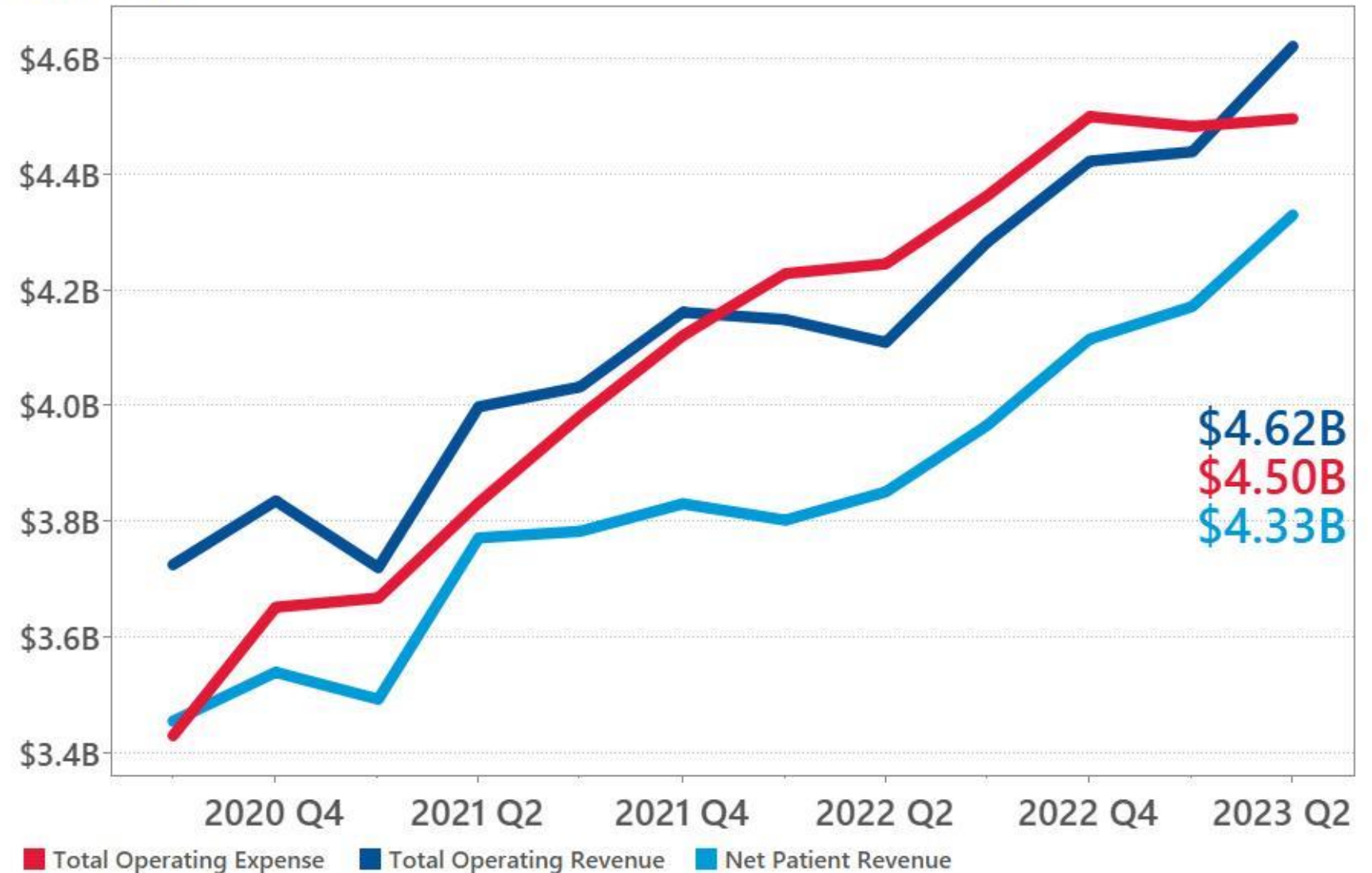
# Revenue and expense

## Revenue vs expense chart

- **Q2 2023** marks the first quarter since Q4 2021 where Total Operating Revenue exceeds Total Operating Expenses (TOE).
- **While expenses remained flat**, Total Operating Revenue and Net Patient Revenue (NPR) saw increases from the previous quarter at 4.1% and 3.8%, respectively.
- **It has now been two and a half years since TOE has exceeded NPR**, meaning hospitals are not able to cover their expenses with revenue from their core patient care activities. However, the gap has narrowed. In Q4 2022, TOE exceeded NPR by \$384 million, while in Q2 2023 the difference was \$166 million.

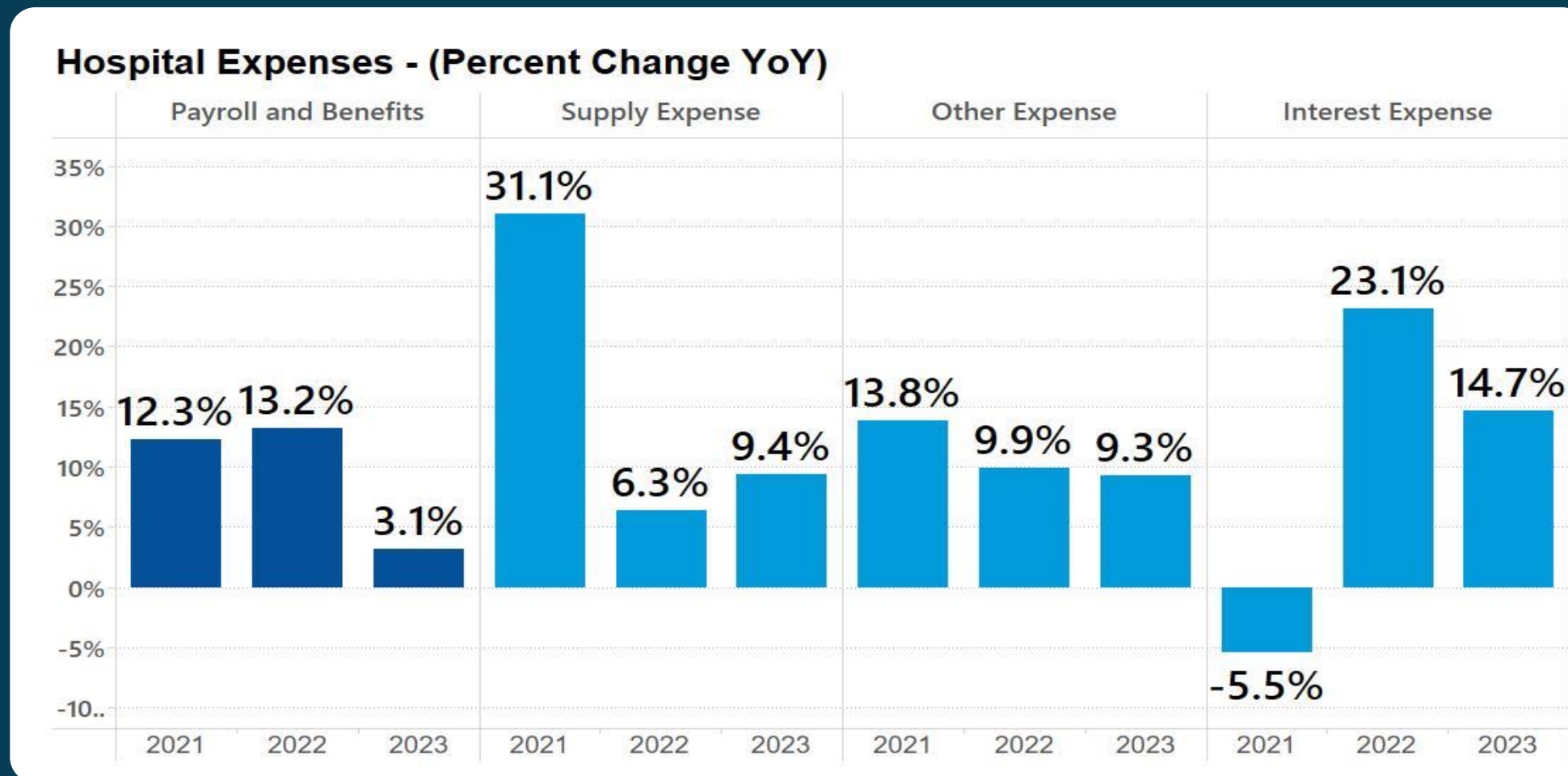
### Revenue vs Expense - Oregon Hospitals

Q3 2020 - Q2 2023



## Hospital expenses (% change)

- Employees Payroll and Benefits, which includes Facility and Physician Payroll and Employee Benefits, continues to make up the largest expense subcategory at roughly 50% of TOE in Q2 2023. This category has increased 31% since Q2 2020.
- Supply Expense, at 18% of TOE in Q2 2023, has skyrocketed by more than 52% since Q2 2020 as hospitals continue to pay more for items and goods, first due to the pandemic and now due to inflation.
- The Other Expense category, at 29% of TOE in Q2 2023, has increased by about 37% since Q2 2020. Other Expense includes professional fees, utilities, insurances, purchased services (such as IT infrastructure, support and operations) and management fees.
- As hospitals rely on their financial reserves to cover high operating expenses and previous investment declines, bond and credit ratings have suffered. The subsequent higher interest rates increase the cost of borrowing for needed facility and technology investments. Interest Expense has ballooned by 33% since Q2 2020.

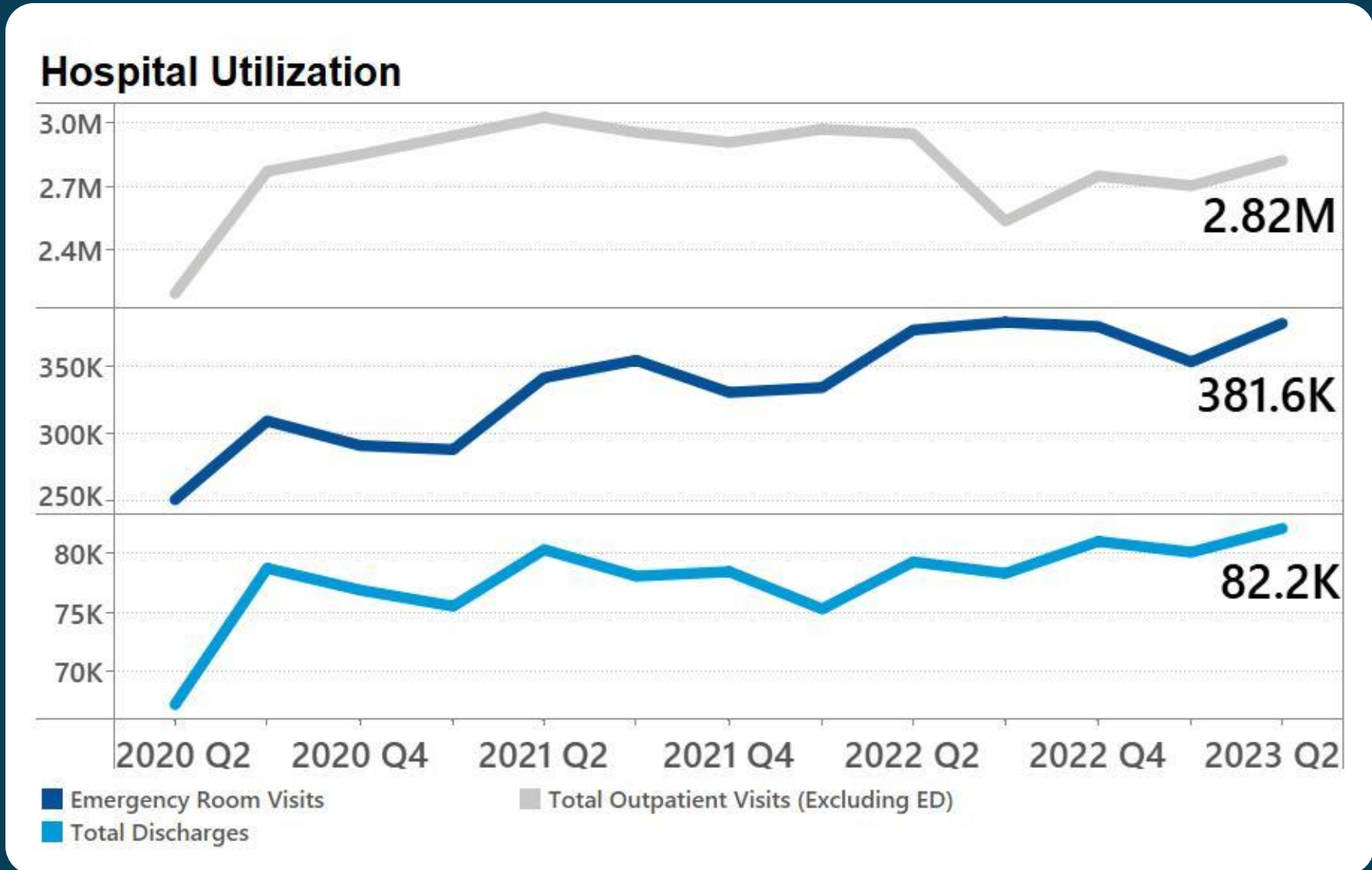


The above chart shows year-over-year percent change for Q2 of each year.

# Utilization

## Hospital Utilization

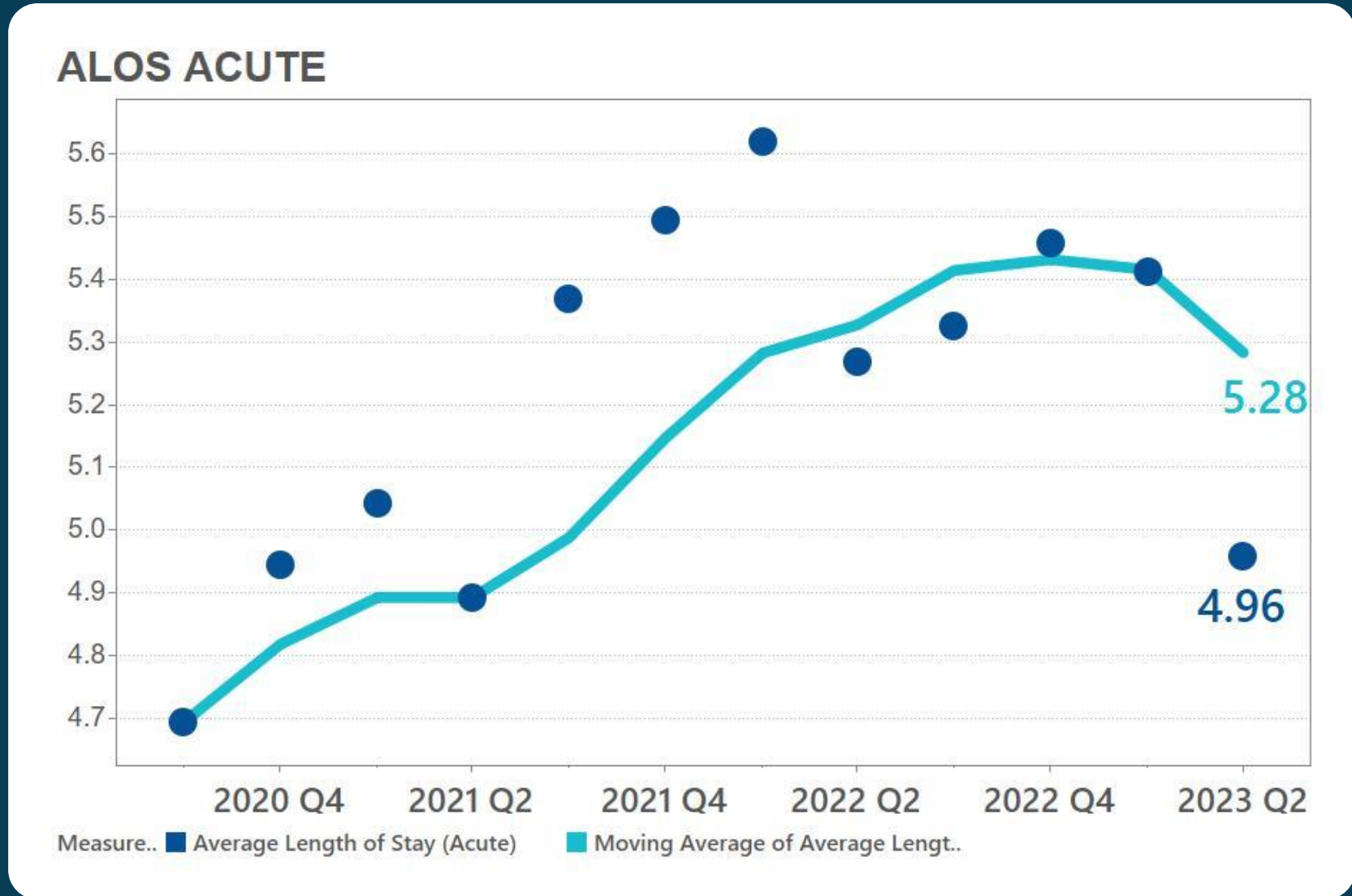
- In Q2 2023, total combined inpatient, outpatient and ED visits increased by nearly 5% when compared to the previous quarter and are down 3.5% when compared to Q2 2022.
- Total Discharges (inpatient visits) have been increasing over the past 3 years by an average of 1.9% per quarter since Q2 2020.
- Total Outpatient Visits (Excluding ED) also increased from the previous quarter by 4.4%.





# Average Length of Stay

- **Beginning in Q2 2023**, the report displays acute Average Length of Stay (ALOS), which only includes acute care and not long-term care, DPU and swing bed data. Average Length of Stay (ALOS) in Q2 2023 is under 5 days for the first time since Q2 2021.
- **The one quarter decline** from 5.41 days in Q1 2023 to 4.96 days is a significant drop of almost half a day, and as a result, the rolling four-quarter ALOS decreased as well to under 5.3 days.
- **A decrease in ALOS** can mean that patients are returning to hospitals for non-emergent care, which is typically less complex and requires fewer days in the hospital.





# Key definitions

---

## Net Patient Revenue (NPR)

The revenue hospitals generate from providing health care services to patients.

## Total Operating Revenue

The sum of Net Patient Revenue and Other Operating Revenue, which is from business operations not related to patient care such as grants, cafeteria and gift shop sales, or federal CARES Act funds.

## Total Operating Expense (TOE)

All expenses incurred from hospital operations including patient care, payroll and benefits, supplies, interest and depreciation, and other expenses.

## Operating Margin

The sum of Net Patient Revenue and Other Operating Revenue minus Total Operating Expenses.

## Total Margin

The net sum of all revenue sources (Operating and Non-Operating) minus all expenses. This includes investment income and tax subsidies from local governments.

## Average Length of Stay (ALOS)

Average number of days that a patient spends in the hospital.

## Inpatient Visits

A count of discharges of patients who have been admitted to the hospital to stay overnight.

## Outpatient Visits

A count of patient visits to the hospital for diagnosis/treatment without spending the night.

## Emergency Room Visits

A count of patient visits to the emergency department who are not later admitted to the hospital.