Fall 2022

The Financial Impact of COVID-19 on Texas Hospitals

KaufmanHall

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Since the start of the COVID-19 pandemic in March 2020, Texas hospitals and health systems have taken unprecedented steps to care for their communities amid intense pressure on staff and resources.

The financial impact of the pandemic has been staggering. As hospital experts, policymakers, and other healthcare leaders assess the current landscape, key findings about the financial state of Texas hospitals from the beginning of the pandemic through August 2022 include:

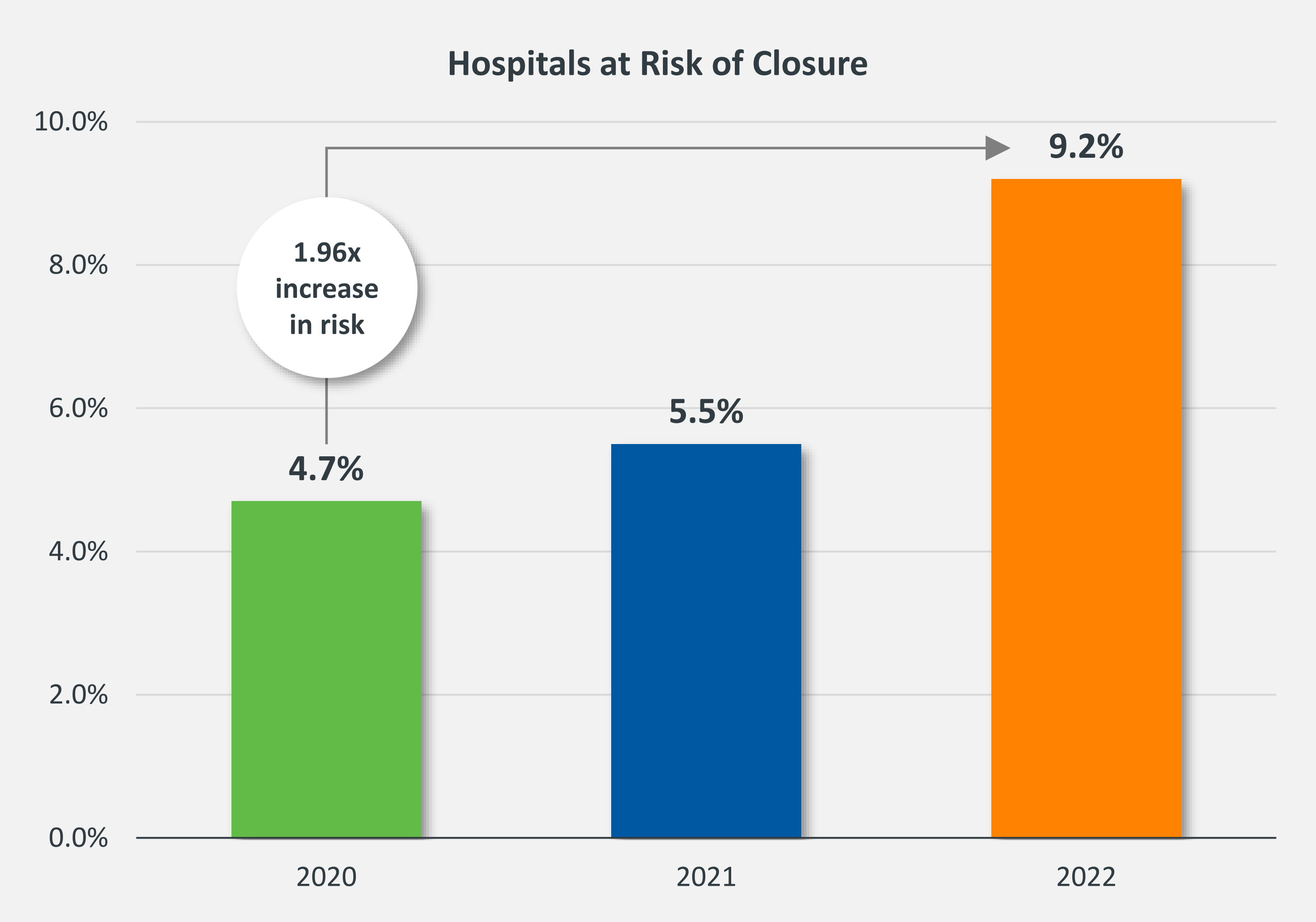
- **Nearly twice as many hospitals are at risk of closure.** The percent of Texas hospitals at serious risk of closure has nearly doubled since 2020, to 9.2% in 2022. While support from the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act helped lessen the closure risk for Texas hospitals in 2020 and 2021, the risk has steadily grown over time.
- **Margins remain depressed relative to pre-pandemic levels.** Even with stimulus support, operating margins were below pre-pandemic levels in 2020. But there is no further federal support on the horizon. While conditions improved in 2021, 2022 has been very difficult, with margins 24.1% below 2019 levels. Nearly half of Texas hospitals have seen negative operating margins in 2022, up from roughly a third in 2019, meaning hospital revenue is not covering the cost of patient care.
- **Expenses are highly elevated from pre-pandemic levels.** Total expenses in 2022 for Texas hospitals are $33.2 billion higher than pre-pandemic levels, outpacing increases in revenue. Rising expenses for both labor and medical supplies have contributed to the increase—and total expenses are cumulatively 20% above pre-pandemic levels.
- **Hospital volumes remain below pre-pandemic levels.** Hospital discharges, emergency department visits, and operating room minutes in Texas hospitals are significantly lower than pre-pandemic levels. However, patient days and length of stay are on the rise, indicating that patients that are visiting hospitals have more severe health needs than prior to the pandemic, and the labor shortages affecting post-acute care are forcing hospitals to house patients longer, resulting in increased expense without commensurate increases in revenue.
- **Hospitals have faced a profound financial toll, with no further relief in sight.** Hospitals have incurred serious losses relative to pre-pandemic levels—including approximately $3.2 billion in 2022 to date—and future federal support is uncertain, as CARES Act funding has largely concluded.

Hospitals also are facing a host of other related challenges, including workforce shortages and supply disruptions.

These findings underscore the existential financial and operational threats Texas hospitals continue to face two and a half years after the beginning of the pandemic.

This report was prepared at the request of the Texas Hospital Association.

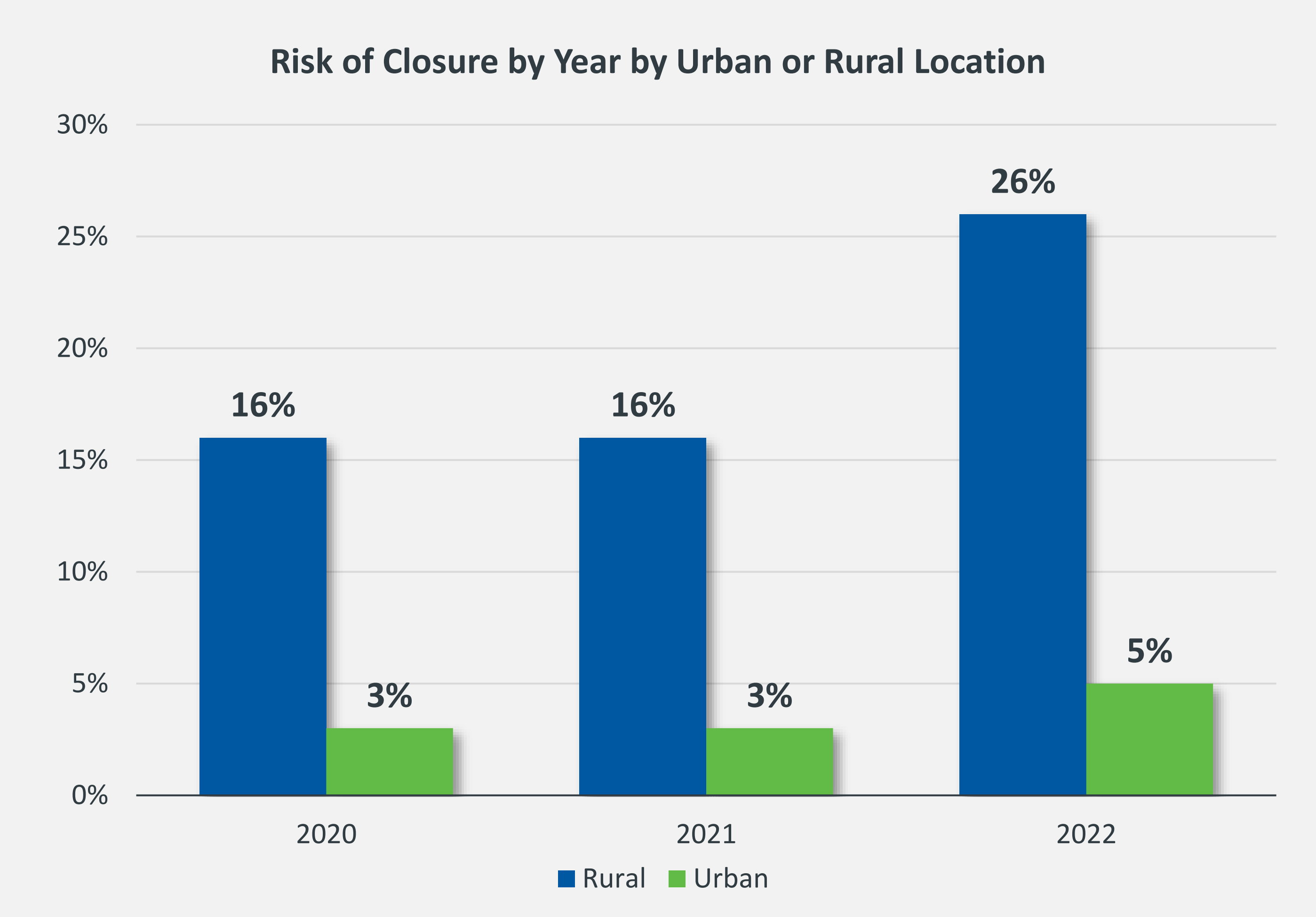
More Texas Hospitals Are at Risk of Closure



KEY TAKEAWAYS

- The percent of Texas hospitals at serious risk of closure has nearly doubled since 2020.
- Risk is assessed by performance of operating margin, days cash on hand, and debt to capitalization ratios in unsustainable positions.
- While stimulus support helped lessen the risk of closure for Texas hospitals in 2020 and 2021, the risk has consistently grown across all time periods.

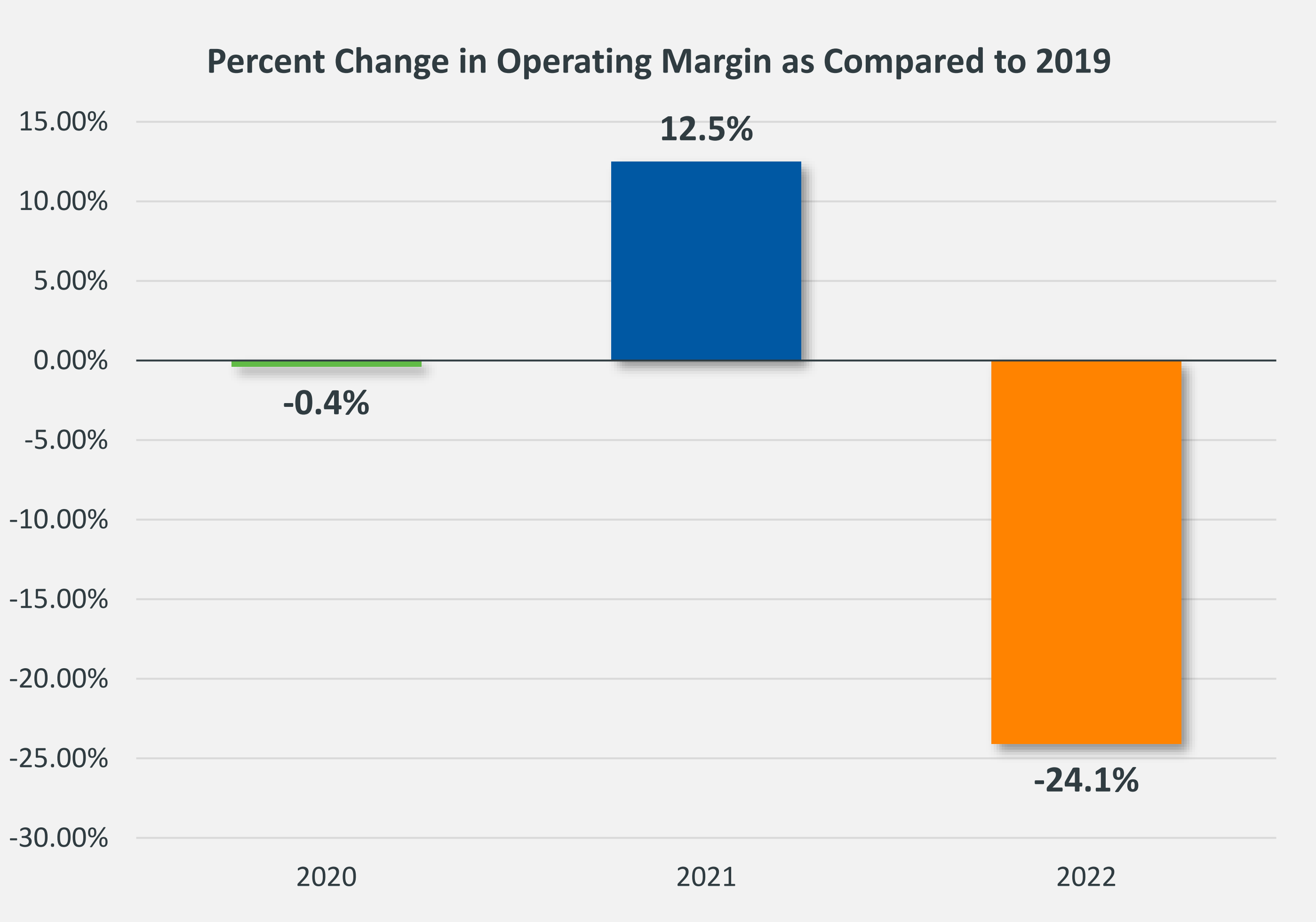
Rural Hospitals Remain at a Higher Risk of Closure than Urban Counterparts, but Risk Has Grown for All



KEY TAKEAWAYS

- The risk of closure for rural hospitals in Texas remains highly elevated over the risk of closure for urban hospitals.
- These challenges represent a clear problem for rural providers within Texas.
- Urban hospitals have also demonstrated an increase in risk over time.

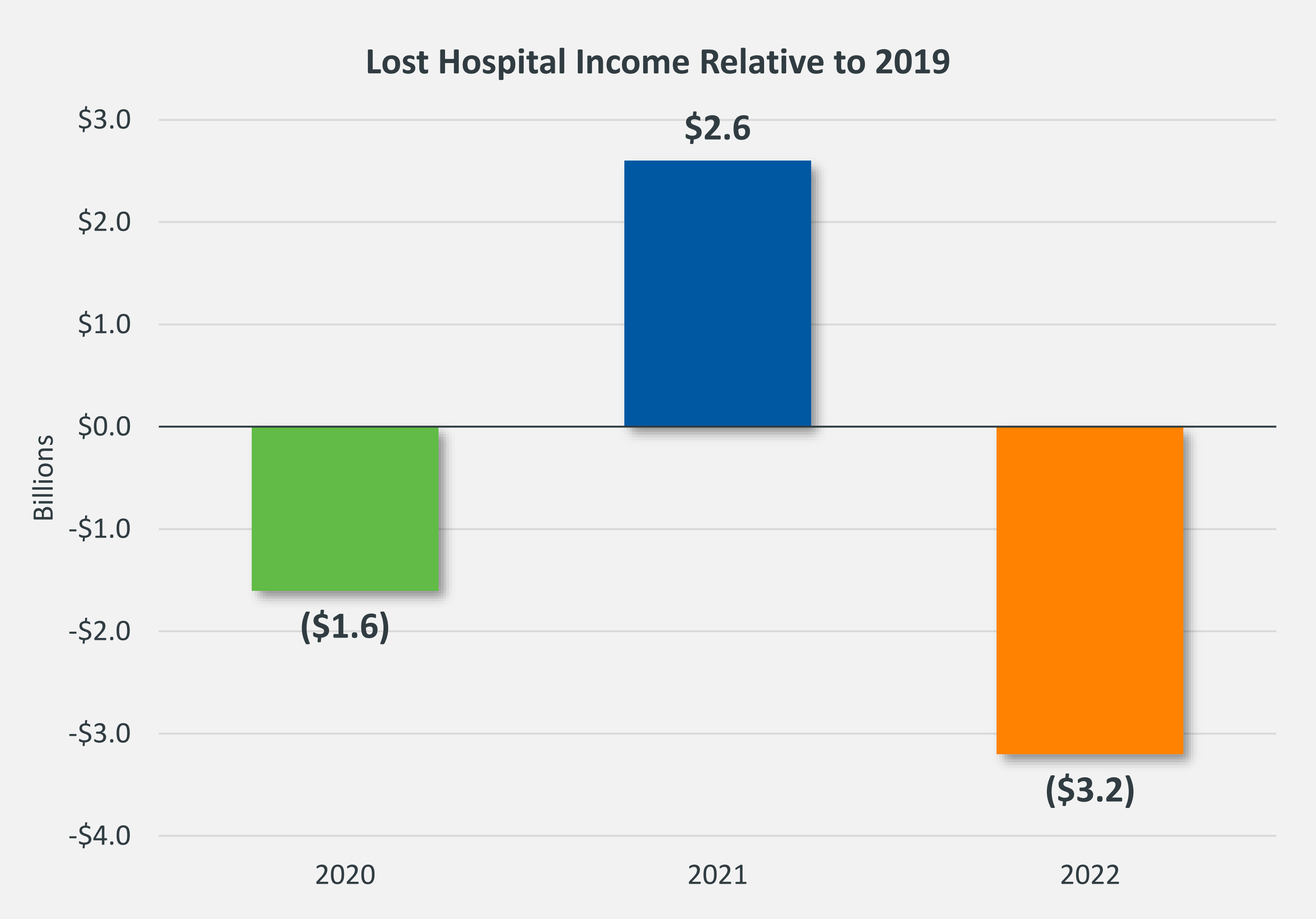
Hospital Operating Margins Are Significantly Below Pre-Pandemic Levels



KEY TAKEAWAYS

- Operating margins for Texas hospitals have been under intense pressure since the outset of the COVID-19 pandemic.
- Even with CARES Act support, operating margins were 0.4% below pre-pandemic levels in 2019. There is no federal support for hospitals on the horizon.
- While conditions improved in 2021, 2022 has been extremely difficult, with margins 24.1% below pre-pandemic levels in 2019.

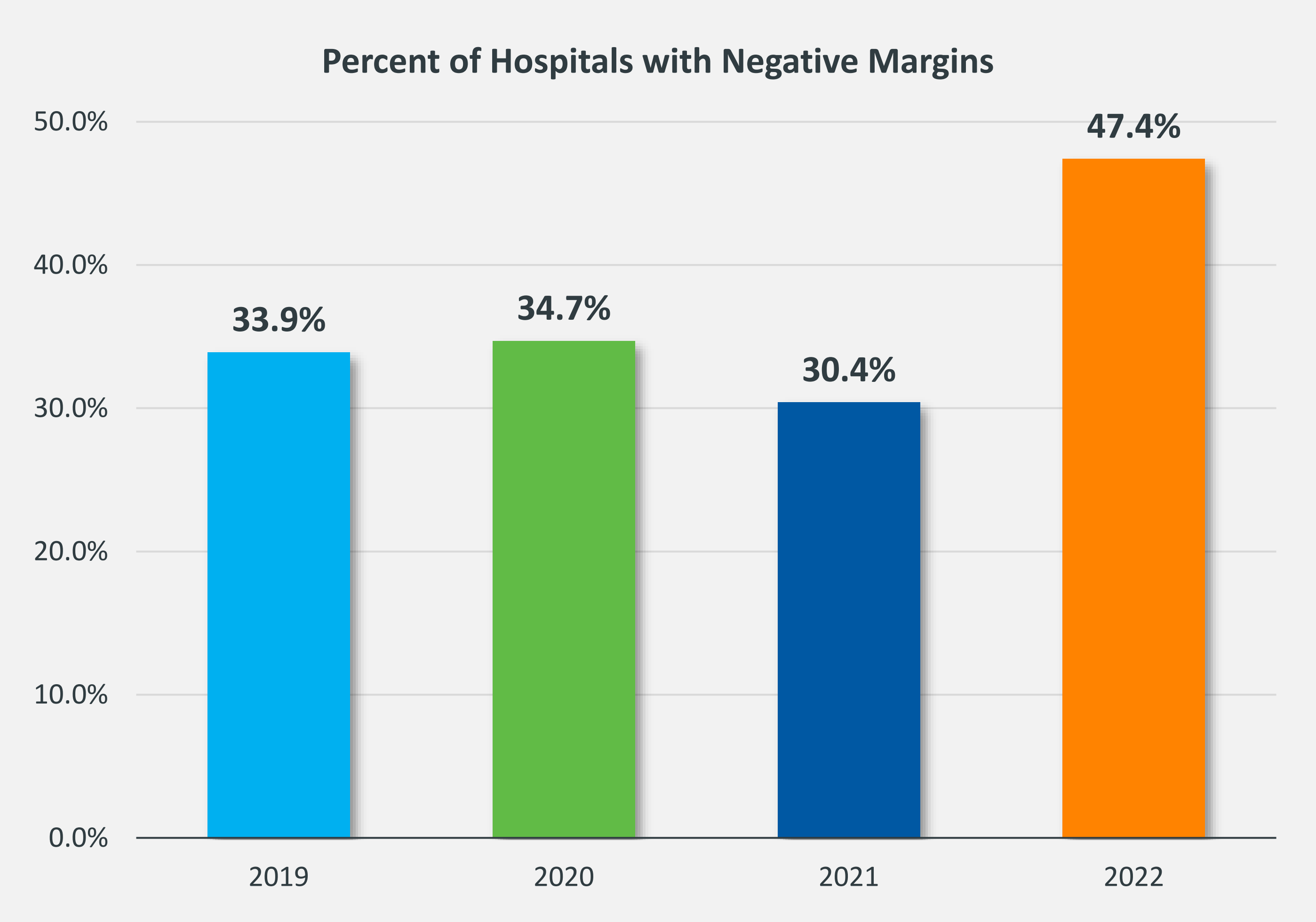
Hospital Have Experienced Lost Income Relative to 2019



KEY TAKEAWAYS

- In the first year of the pandemic, Texas hospitals experienced $1.6 billion in lost income.
- While conditions improved in 2021, Texas hospitals have experienced lost income of $3.2 billion to date in 2022, which is approximately a 30% reduction in total income across the state of Texas.

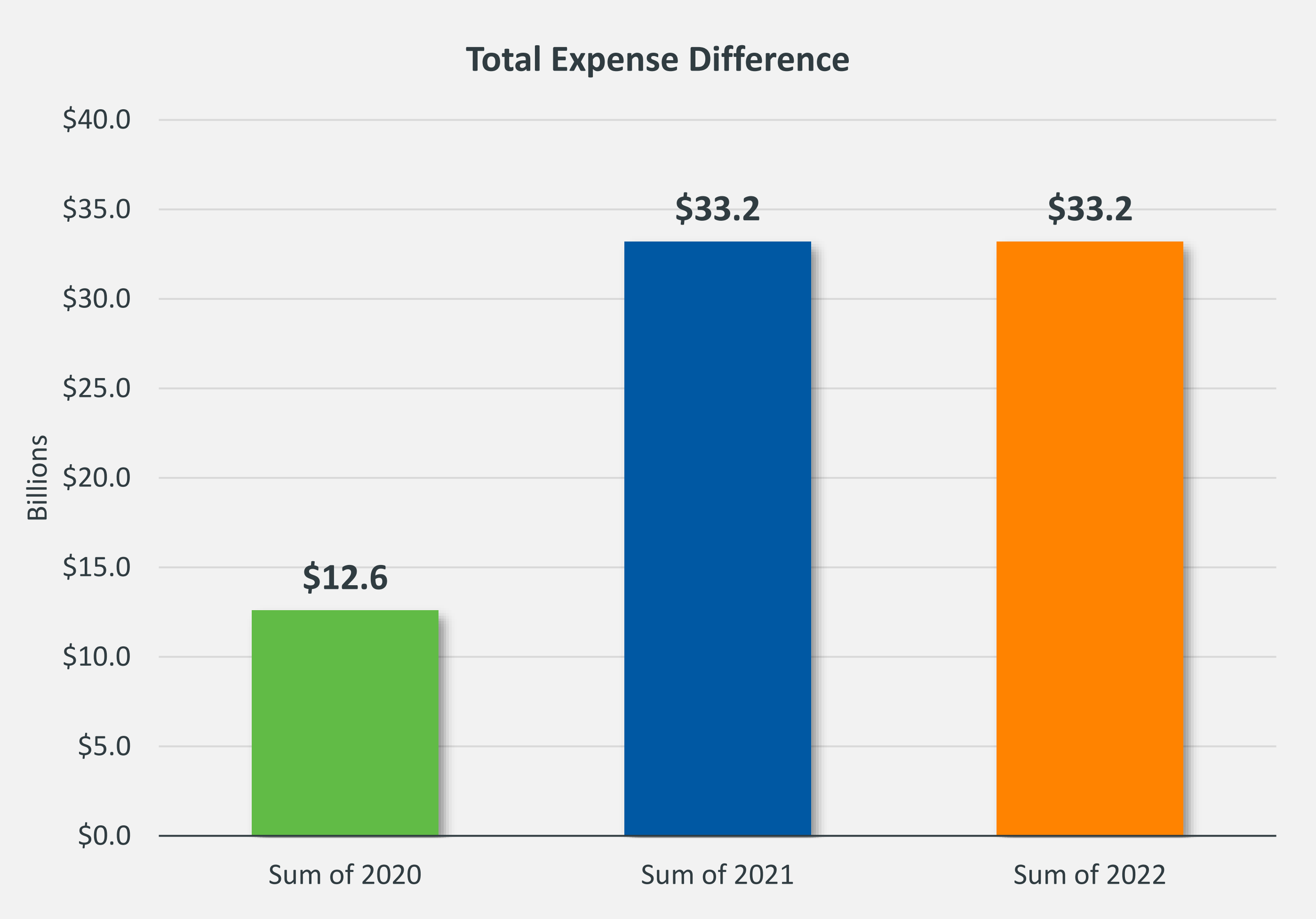
Nearly Half of Texas Hospitals Have Negative Operating Margins



KEY TAKEAWAYS

- In 2019, roughly a third of Texas hospitals had negative operating margins.
- While CARES Act support helped hospitals weather the first two years of the pandemic, the proportion of Texas hospitals with negative operating margins skyrocketed in 2022 to 47.4%, or nearly half of all hospitals.

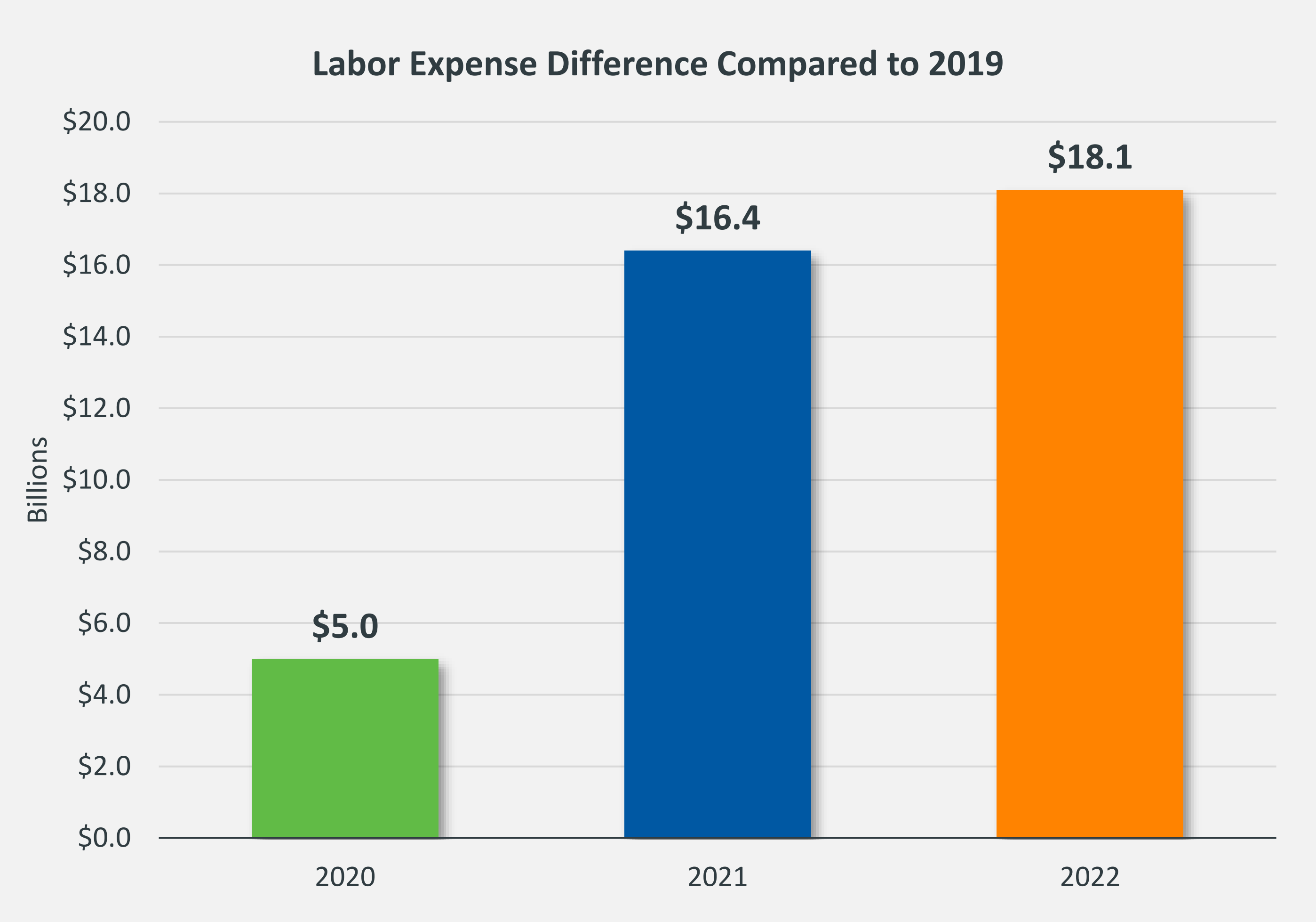
Total Expenses Are Dramatically Higher than Pre-Pandemic Levels



KEY TAKEAWAYS

- Total hospital expenses in Texas have skyrocketed since 2019.
- Key factors include rising labor costs, including contract labor expenses, and non-labor expenses.
- Through 2022 to date, labor expenses are 20.9% higher than pre-pandemic levels, while medical supplies are 8.5% above pre-pandemic levels.

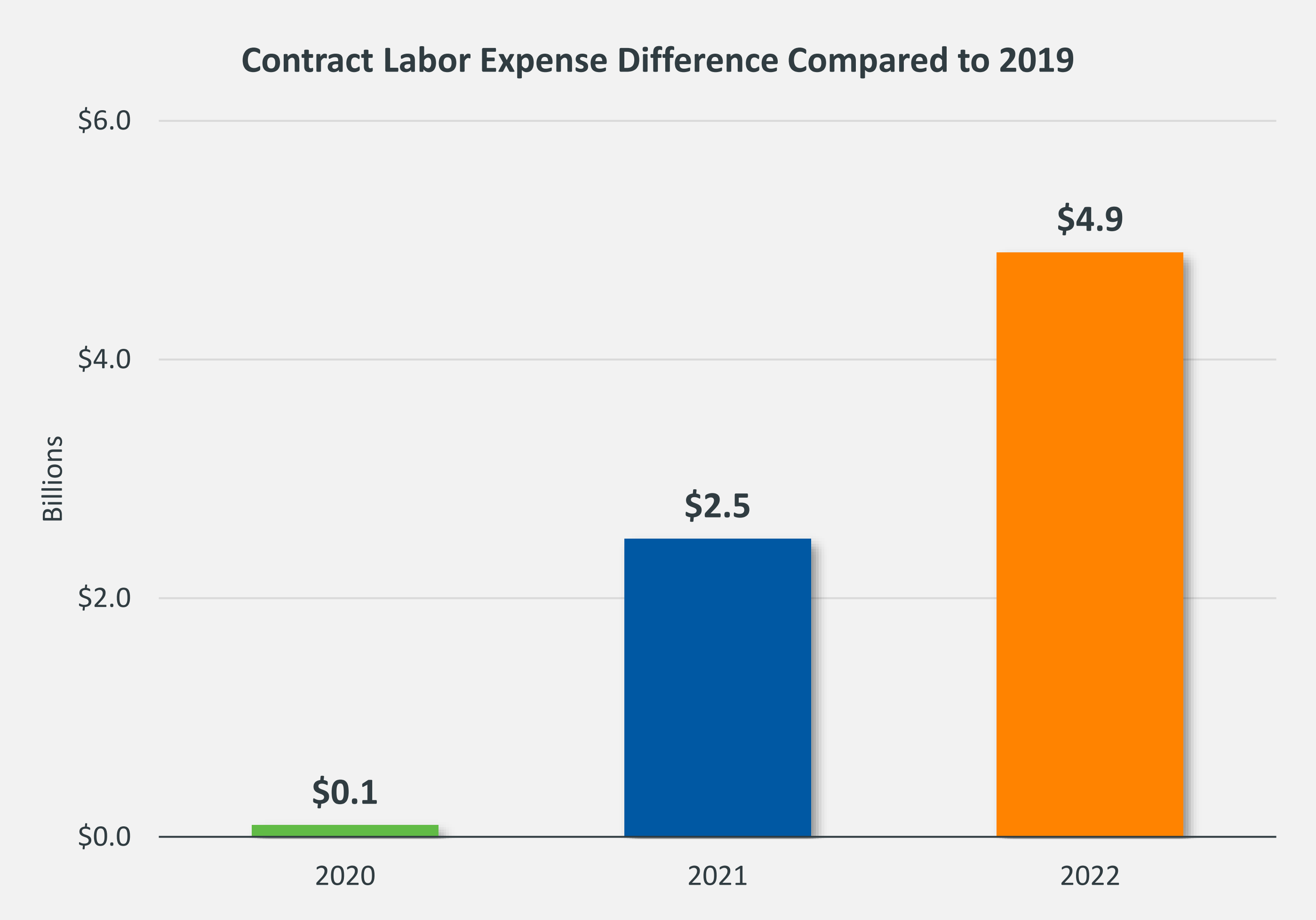
Labor Expenses Are Far Above Pre-Pandemic Levels



KEY TAKEAWAYS

- Labor expenses for Texas hospitals through 2022 to date are $18.1 billion higher than 2019, due to both higher staffing and contract labor expenses.
- Labor expenses also grew significantly in 2020 and 2021.

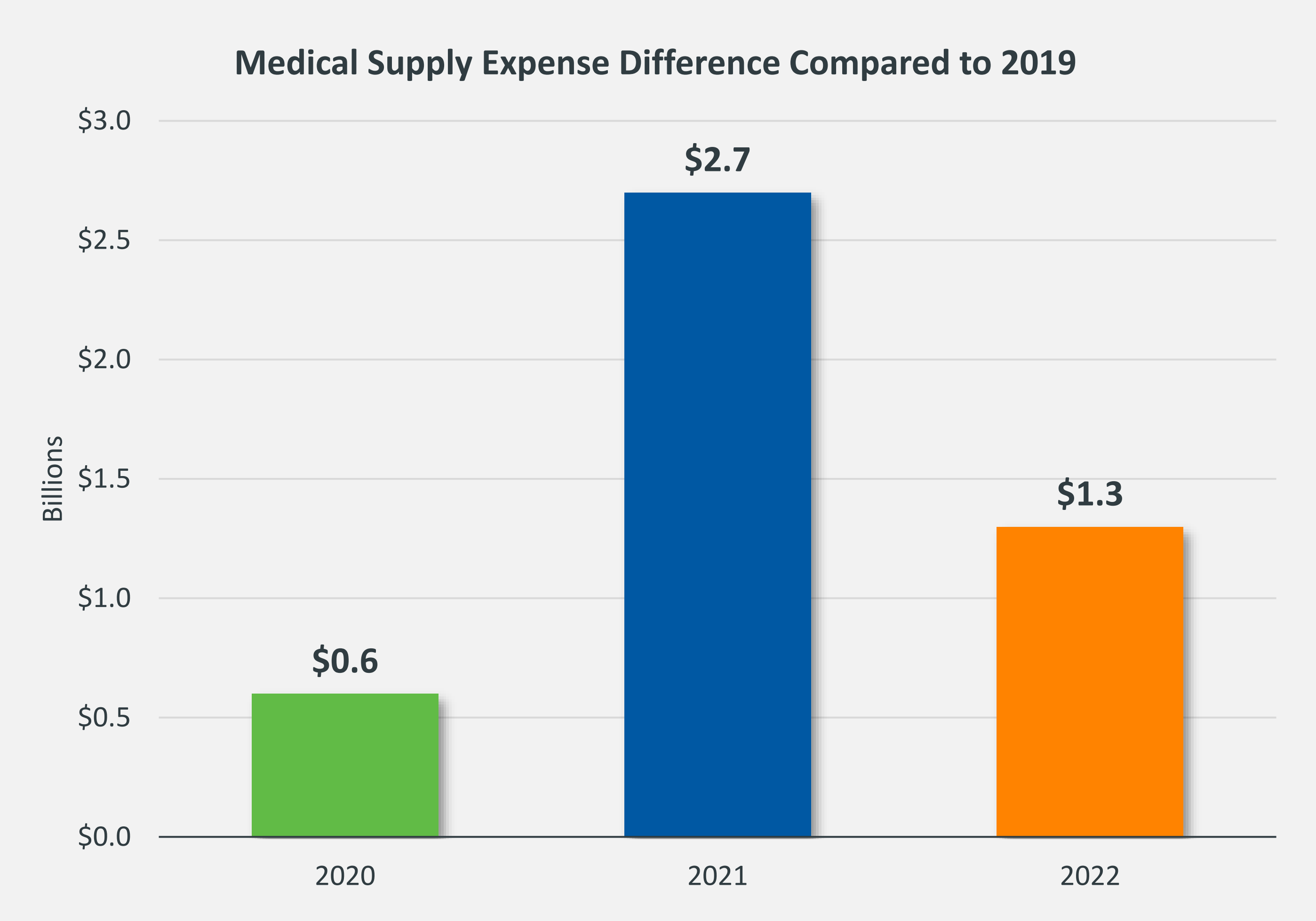
Contract Labor Expenses Are a Major Contributing Factor



KEY TAKEAWAYS

- Contract labor expenses have played a significant factor in rising labor expenses.
- Through 2022 to date, contract labor expenses for Texas hospitals are $4.9 billion higher than pre-pandemic levels.

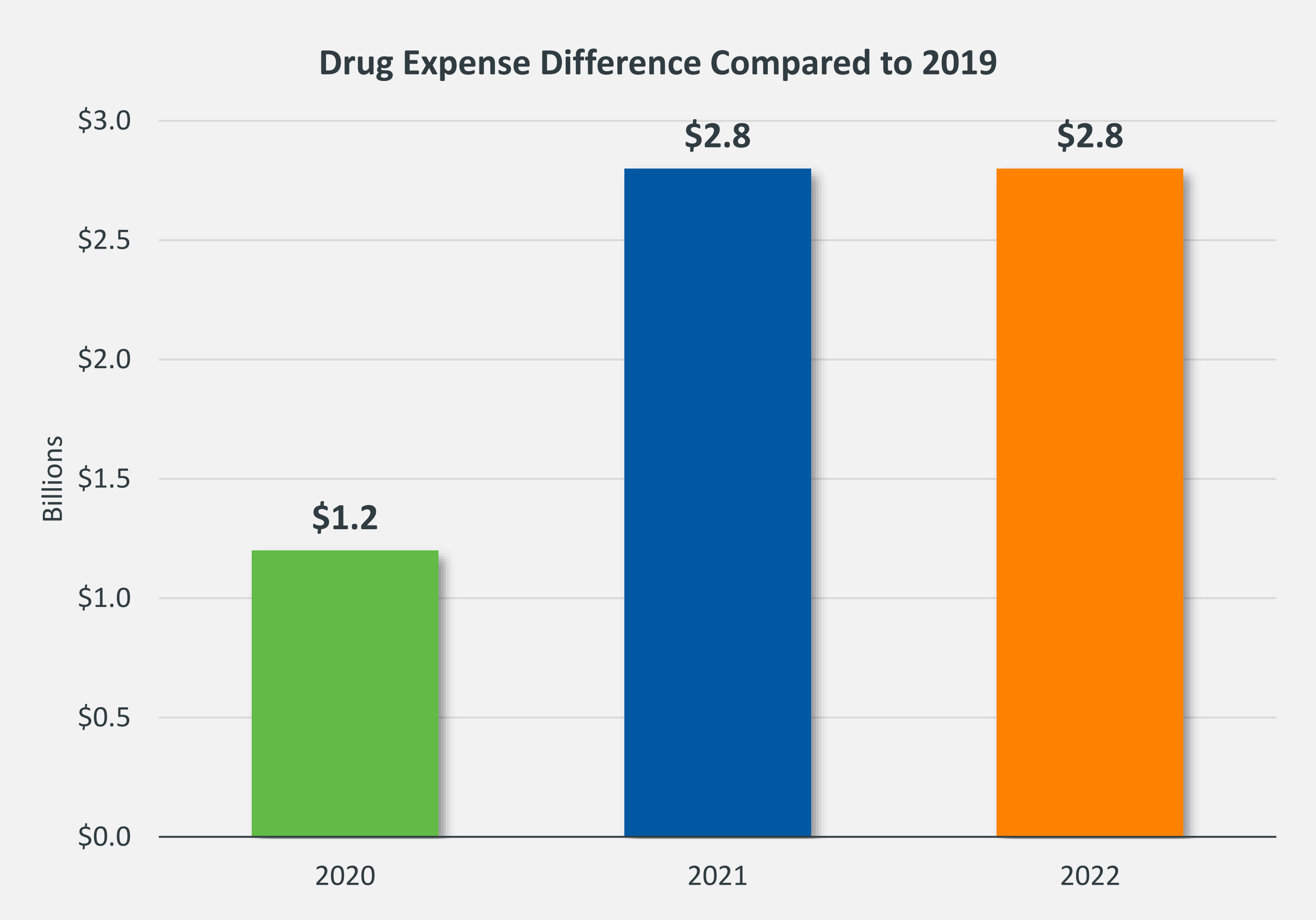
Medical Supply Expenses Also Remain Elevated



KEY TAKEAWAYS

- Medical supply expenses have driven a significant proportion of overall expense growth since the outset of the pandemic for Texas hospitals.
- Medical supply costs for Texas hospitals were 8.5% higher in 2022 than in 2019 – or $1.3 billion all told—and have remained elevated since 2020.

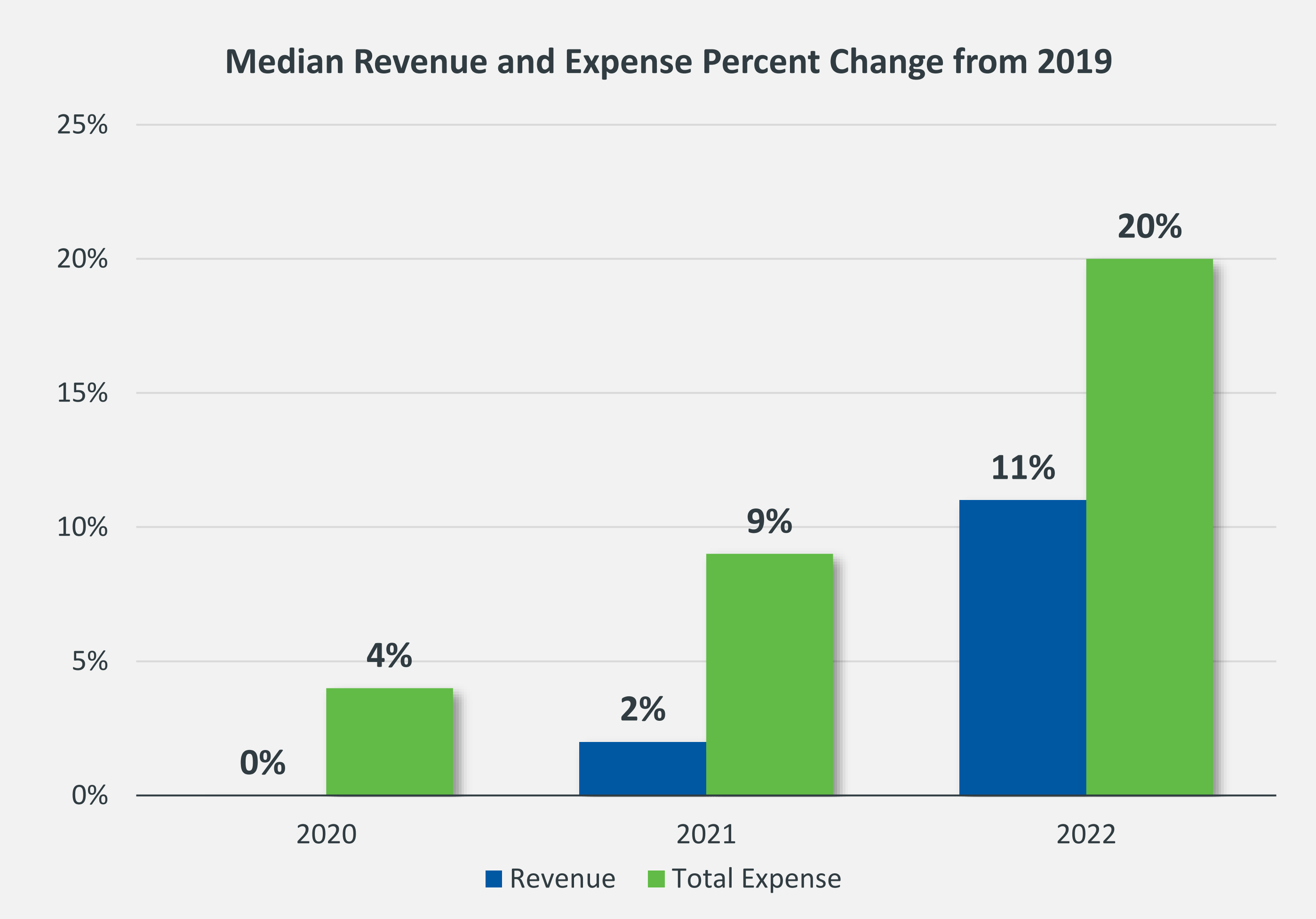
Drug Expenses Remain Highly Elevated



KEY TAKEAWAYS

- Drug expenses have significantly accelerated for Texas hospitals since 2020 and remain significantly above 2019 levels.
- In both 2021 and 2022 to date, drug expenses have amounted to $2.8 billion more than 2019 levels.

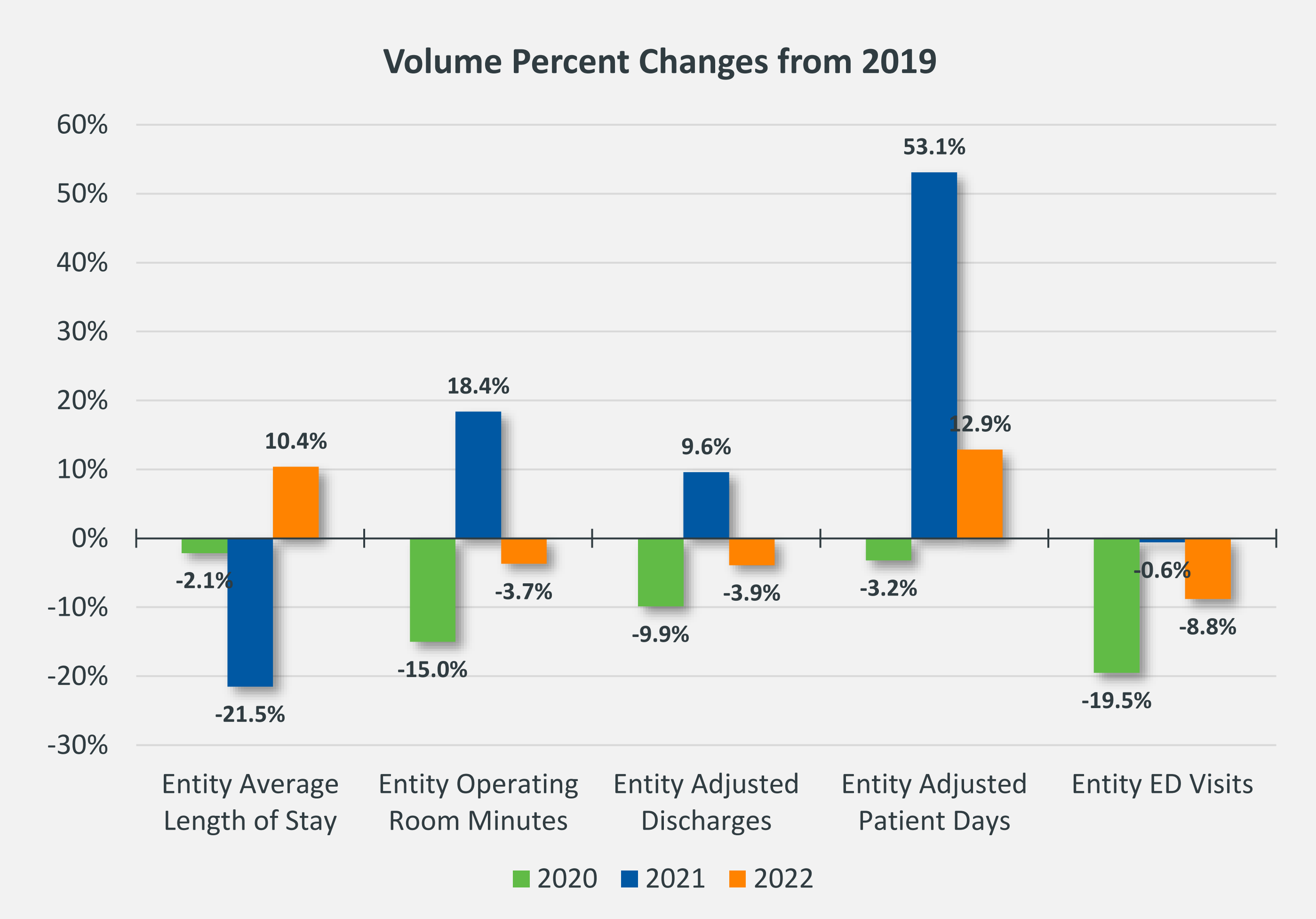
Revenue Growth Has Lagged the Growth in Expenses



KEY TAKEAWAYS

- While Texas hospital revenues have grown since the start of the pandemic, the rate of growth has significantly lagged the rate of growth in expenses.
- The difference in growth rates between expenses and revenues has led to significantly depressed margins for Texas hospitals.

Volumes Have Declined, While Patient Days and Length of Stay Have Increased



KEY TAKEAWAYS

- Overall, hospital discharges, emergency department visits, and operating room minutes in Texas hospitals are significantly lower than pre-pandemic levels.
- However, rising patient days in 2021 and 2022, coupled with a significant increase in length of stay in 2022, suggests that patients that are visiting hospitals have more severe health needs than prior to the pandemic.
- The increase in length of stay is also being driven by labor shortages in post-acute settings, leaving hospitals with the inability to discharge patients in a timely manner, while incurring the additional costs of those patient stays without commensurate reimbursement.

Methodology

Methodology

- This report includes data representing more than 60 Texas hospitals sampled from data from Syntellis Performance Solutions—which are extrapolated to a statewide view controlling for hospital type, location, and size.
- Operating margins are calculated as net operating revenue minus total operating expense, divided by net operating revenue.
- Comparison of expenses and margins are not volume adjusted and reflect actual gains or losses relative to prior year levels.
- Rural hospitals are defined as hospitals that are located outside of Metropolitan Statistical Areas.
- Hospitals at risk of closure are defined by those hospitals from the sample which met the following criteria:
  - — Operating margin below 0%
  - — Days cash on hand less than 113 days
  - — Debt to capitalization ratio exceeding 50%

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