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March 2020

National Hospital Flash Report

Based on February Data from Over 800 Hospitals

Real Data. Real Insight. Real Time.

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Overview

Dear Readers,

As you read this, many of your organizations either are coping with the onslaught of patients from the COVID-19 pandemic, or bracing for the impact of anticipated volumes to come. The nation's hospitals and health systems will face untold challenges in the months ahead, with unprecedented demands on staff, resources, and capacity.

The *National Hospital Flash Report* provides snapshots in time, reflecting the performance of U.S. hospitals in a given month. Looking back at February data is like looking at the calm before the storm. The second month of the year saw margins continue to fall following moderate declines in January, due in large part to rising expenses. Next month's report will be quite different, reflecting the initial impacts of the virus' rapid spread across the country.

Since the first U.S. case was confirmed in Washington state on Jan. 20, the number of coronavirus cases has ballooned to more than 42,000 and growing. For this month's Spotlight, we direct you to Kaufman Hall's Coronavirus Updates page, and ask for your feedback on the types of data you would like to see in real-time over the coming months (please send your responses to FlashReports@kaufmanhall.com).

One thing is certain, COVID-19 is dramatically changing the picture for our nation's hospitals and health systems. We will continue to track the data to help you keep a pulse on the broader industry as your organizations fight this critical battle against COVID-19 in the communities you serve.

We cannot thank you enough for all that you are doing.

Thanks,

Jim Blake
Managing Director and Publisher
Kaufman Hall

A Special Note: Due to the high level of uncertainties surrounding the COVID-19 pandemic and its impact on the nation's hospitals, this issue does not include the "Next Month" section seen in previous issues. Data for the Next Month section are drawn from budget projections made prior to the pandemic, which are no longer relevant given widespread and mounting industry disruption brought on by COVID-19.

Kaufman Hall Perspective

Margin

U.S. hospitals experienced **margin declines in February**, following moderate declines in January. For many organizations, it was the last month of business as usual before coming face-to-face with the impacts of unprecedented demands as COVID-19 cases mount nationwide. Operating Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) Margin fell -92.7 basis points (bps) year over year in February, and -105.2 bps below budget.

Operating Margin was down -73.2 bps year over year, and -92.4 bps below budget. Looking month over month, Operating EBITDA Margin was down -162.9 bps, and Operating Margin fell -206.4 bps. Lower volumes compared to January and higher expenses contributed to the decreasing margins. The COVID-19 pandemic will dramatically change the picture across all metrics in the coming months.

Volume

The nation's hospitals saw **volumes increase across all measures** in February compared to the same period in 2019, but decrease across most measures compared to January. Discharges were up 1.1 percent, Adjusted Discharges rose 2.7 percent, and Adjusted Patient Days rose 6.3 percent. Average Length of Stay (LOS) increased 1.9 percent compared to February 2019, while ED Visits were up 3.0 percent, and Operating Room (OR) Minutes rose just 0.7 percent.

Month over month, OR Minutes saw the biggest year-over-year decrease at -9.7 percent. Average LOS was the only volume metric to see a slight month-over-month increase of 0.7 percent. Even so, most metrics performed above budget expectations.

Revenue

Revenues were up for most metrics, both year over year and month over month. Net Patient Service Revenue (NPSR) per Adjusted Discharge rose 3.0 percent year over year and 0.7 percent month over month, and was slightly above budget at 0.2 percent. NPSR per Adjusted Patient Day rose just 0.1 percent year over year and 0.9 percent month over month, but was -3.0 percent below budget.

The Inpatient/Outpatient (IP/OP) Adjustment Factor rose 2.5 percent year over year and 0.7 percent month over month. Bad Debt and Charity as a Percent of Gross rose 1.5 percent compared to February 2019, but was the only metric to fall -0.7 percent compared to January 2020.

Kaufman Hall Perspective *(continued)*

Expense

Hospitals saw **expenses increase** in February. Total Expense per Adjusted Discharge rose 2.2 percent year over year and 3.3 percent month over month. Labor Expense per Adjusted Discharge had the biggest year-over-year increase at 3.4 percent, and rose 1.6 percent month over month. Full-Time Equivalents (FTEs) per Adjusted Occupied Bed (AOB) was the only expense metric to see a slight year-over-year decline, at -0.4 percent.

Non-Labor Expense per Adjusted Discharge rose 0.7 percent year over year, and 4.3 percent month over month. Supply Expense per Adjusted Discharge rose 2.3 percent year over year, but was essentially flat month over month. Drug Expense per Adjusted Discharge rose 2.4 percent compared to February 2019, but was down -1.1 percent compared to January 2020. Purchased Service Expense per Adjusted Discharge saw the biggest month-over-month increase at 8.5 percent.

Non-Operating

February was marked by **volatility and uncertainty** for Wall Street. Equities began the month on strong footing, but the unprecedented bull run quickly came to a halt as the spread of COVID-19 led to a selloff in equities. The S&P 500 fell 8.4 percent in February, after reaching all-time highs earlier in the month. At publishing time, the index was 18.8 percent off of its February starting point at 2,954.22.

Nonfarm payrolls added 273,000 jobs in February—including 32,000 in healthcare—bringing unemployment to a 50-year low of 3.5 percent. The 10-year Treasury bond ended February at a record low 1.15 percent, while the 30-year MMD declined 28 bps month over month to 1.52 percent. Municipal fund flows saw a stark reversal in March to date, as repercussions of the pandemic drove a whipsaw in rates and dislocation of the municipal versus treasury ratio market.

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Margin

National Margin Observations

The nation's hospitals experienced margin declines in February, following moderate declines in January. For many organizations, it was the last month of business as usual before coming face-to-face with the impacts of unprecedented demands as COVID-19 cases mount nationwide. Operating Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) Margin fell -10.3 percent year over year in February, or -92.7 basis points (bps), and was -10.2 percent or -105.2 bps below budget expectations. Operating Margin was down -11.7 percent or -73.2 bps year over year, and -11.9 percent or -92.4 bps below budget. Looking at month over month results, Operating EBITDA Margin was down -14.7 percent or -162.9 bps, and Operating Margin was down -24.6 percent or -206.4 bps.

Lower volumes compared to January 2020 and higher expenses across most metrics contributed to the decreasing margins, despite moderate revenue increases both month over month and year over year. The COVID-19 pandemic will dramatically change the picture across all metrics in the coming months.

Margin % Change

	Budget Variance	Month Over Month	Year Over Year
Operating EBITDA Margin	-10.2%	-14.7%	-10.3%
Operating Margin	-11.9%	-24.6%	-11.7%

Margin Absolute Change

	Budget Variance	Month Over Month	Year Over Year
Operating EBITDA Margin	(105.2)	(162.9)	(92.7)
Operating Margin	(92.4)	(206.4)	(73.2)

Unless noted, figures are actuals and medians expressed in basis points

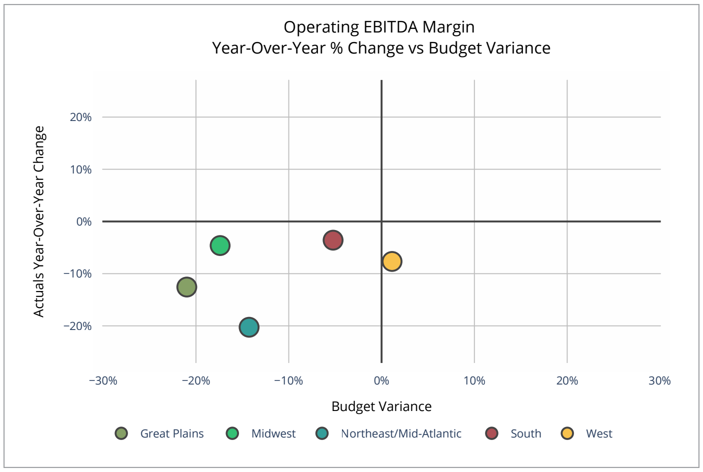
Margin *(continued)*

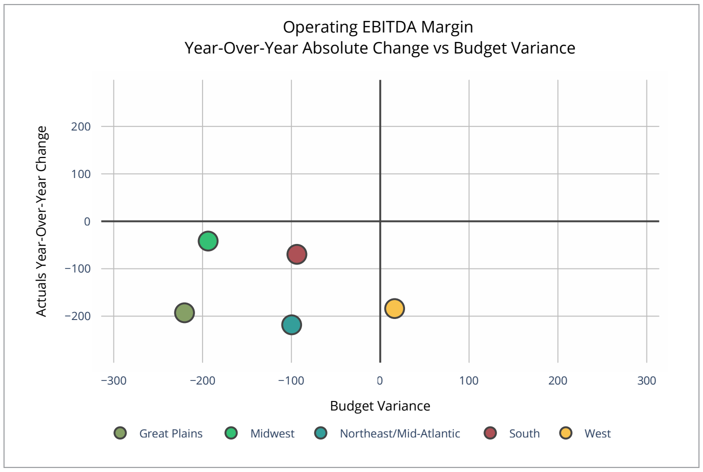
EBITDA Margin by Region

Operating EBITDA Margin was down year over year across all regions, and below budget for four of five regions. The Northeast/Mid-Atlantic saw the biggest year-over-year drop at -20.3 percent, and was -14.3 percent to budget, due to lower-than-expected volumes and increasing overall expenses—including high labor expenses in particular.

The South experienced the least year-over-year drop in Operating EBITDA Margin at -3.6 percent, and fell -5.2 percent below budget. The Great Plains had the biggest variance to budget at -21.0 percent, and was down -12.6 percent year over year, due in part to a significant increase in bad debt and charity care.

The West was down -7.7 percent year over year, but was the only region to fall slightly above budget expectations for Operating EBITDA Margin at 1.1 percent. The Midwest was down -4.6 percent year over year, following two consecutive months of having the highest year-over-year increases in Operating EBITDA Margin compared to other regions.



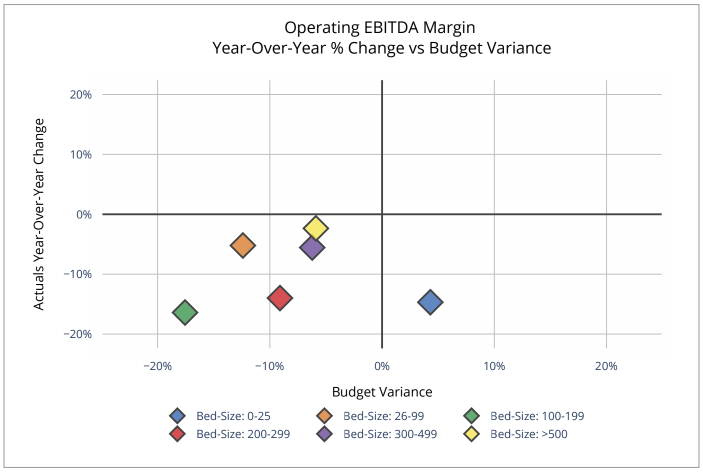


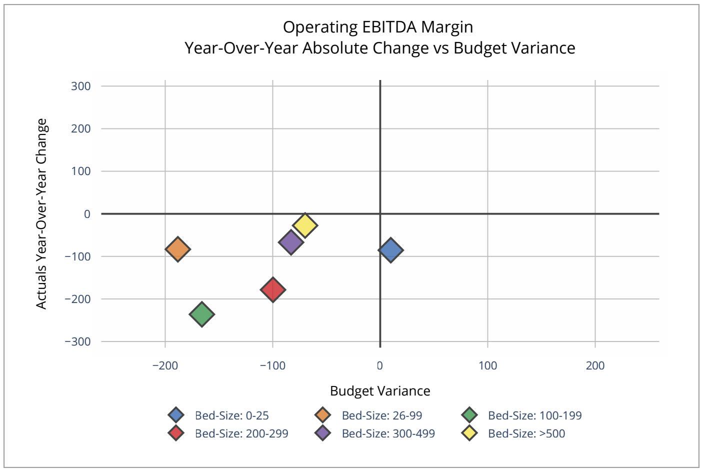
Margin *(continued)*

EBITDA Margin by Bed Size

Margin results were down year over year across all bed-size cohorts, and below budget for five of six cohorts. Mid-sized hospitals of 100-199 beds saw the biggest decreases, down -16.4 percent and -17.6 percent to budget, due to lower-than-expected volumes and high overall expenses.

The nation's largest hospitals of 500 beds or more saw the least decrease at -2.4 percent, and -5.9 percent to budget. Hospitals of 0-25 beds fell -14.7 percent year over year, but was the only cohort to perform above budget expectations at 4.3 percent. The year-over-year decline in Operating EBITDA Margin comes after exceptionally strong performance for the nation's smallest hospitals in January, when the cohort jumped 24.6 percent year over year, and performed 21.6 percent above budget.





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Volume

National Volume Observations

The nation's hospitals saw volumes increase across all measures in February compared to the same period in 2019, but decrease across most measures compared to January 2020. Discharges were up 1.1 percent, Adjusted Discharges rose 2.7 percent, and Adjusted Patient Days were up 6.3 percent. Average Length of Stay (LOS) rose 1.9 percent compared to February 2019, while Emergency Department (ED) Visits were up 3.0 percent, and Operating Room (OR) Minutes increased just 0.7 percent.

Month over month, Discharges were down -8.3 percent, while Adjusted Discharges and Adjusted Patient Days both fell -7.6 percent. ED Visits were down -8.6 percent compared to January and OR Minutes were down -9.7 percent. Average LOS was the only volume metric to see a slight month-over-month increase of 0.7 percent.

Even so, most metrics performed above budget expectations. The exceptions were Discharges, which fell -1.1 percent to budget, and OR Minutes, which were -2.7 percent below budget. Adjusted Discharges, Adjusted Patient Days, ED Visits, and Average LOS all were above budget, with Average LOS seeing the largest increase to budget of 2.1 percent.

Volumes % Change

	Budget Variance	Month Over Month	Year Over Year
Discharges	-1.1%	-8.3%	1.1%
Adjusted Discharges	0.1%	-7.6%	2.7%
Adjusted Patient Days	0.4%	-7.6%	6.3%
Average Length of Stay	2.1%	0.7%	1.9%
ED Visits	1.3%	-8.6%	3.0%
Operating Room Minutes	-2.7%	-9.7%	0.7%

Unless noted, figures are Actuals and Medians

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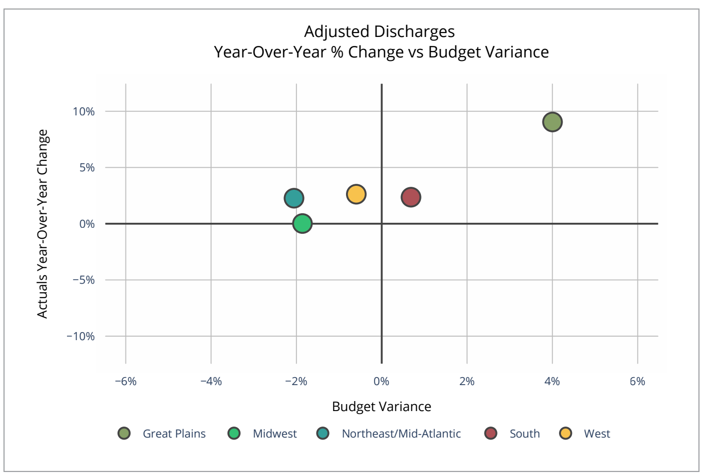
Volume *(continued)*

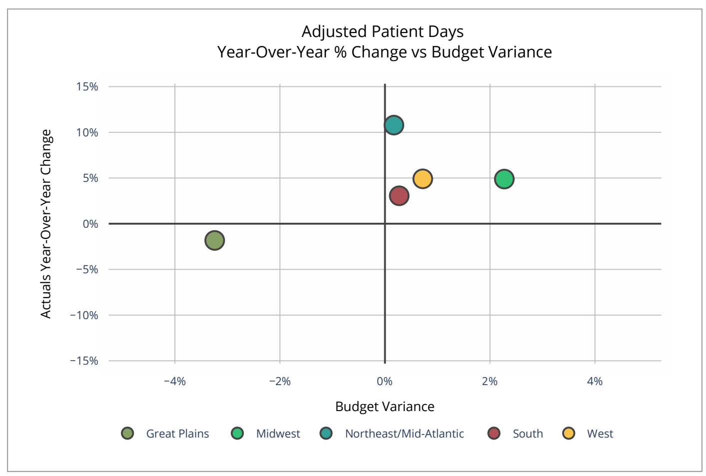
Volume by Region

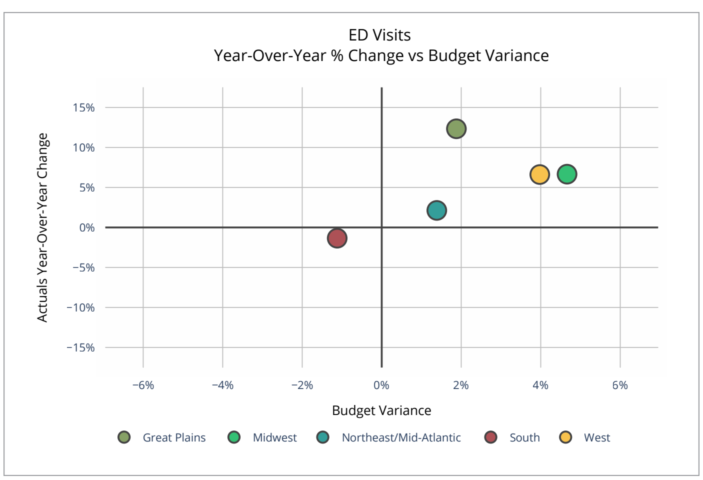
Discharges were up year over year across all regions. The Great Plains saw the biggest increase at 1.7 percent, while the Northeast/Mid-Atlantic saw the lowest increase at just 0.3 percent. Three of five regions also fell below budget, with the exceptions of the South and Great Plains.

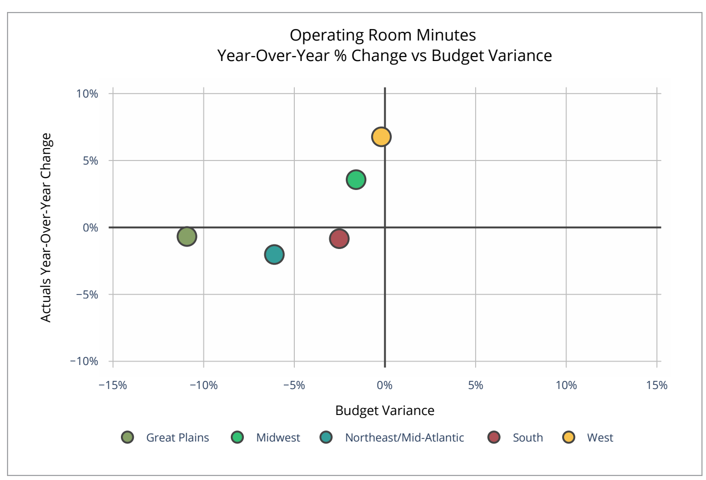
Adjusted Discharges followed a similar pattern, with all regions at or above February 2019 levels. The Great Plains again saw the largest increases, up 9.1 percent year over year and 4.0 percent to budget. The South was up 2.4 percent year over year and 0.7 percent to budget. The Midwest was essentially flat year over year, but -1.9 percent below budget.

Adjusted Patient Days increased year over year and compared to budget in four of five regions. The Northeast/Mid-Atlantic saw the largest increase at 10.8 percent year over year, but was only 0.2 percent to budget. The Midwest had the greatest positive









Volume *(continued)*

Volume by Region *(continued)*

variance to budget at 2.3 percent, and was up 4.9 percent year over year. The Great Plains was the outlier, as the only region to fall year over year (-1.8 percent) and to budget (-3.2 percent).

The Northeast/Mid-Atlantic saw the biggest year-over-year increase in Average LOS at 7.2 percent, but was down -6.7 percent to budget. The South, Midwest, and West all were up year over year and compared to budget. The Great Plains was down -3.7 percent year over year and up slightly 0.5 percent to budget.

ED Visits rose year over year and to budget in four of five regions. The Great Plains had the biggest year-over-year increase at 12.3 percent, and was 1.9 percent to budget. The South was the only region to see a decrease in ED Visits, down -1.4 percent year over year and -1.1 percent to budget.

By contrast, OR Minutes were down year over year and compared to budget in the Great Plains, Northeast/Mid-Atlantic, and South. The Midwest and West both saw year-over-year increases in OR Minutes, but were below budget expectations. The West had the biggest year-over-year increase of 6.8 percent, while the Northeast/Mid-Atlantic had the biggest year-over-year decrease at -2.0 percent.

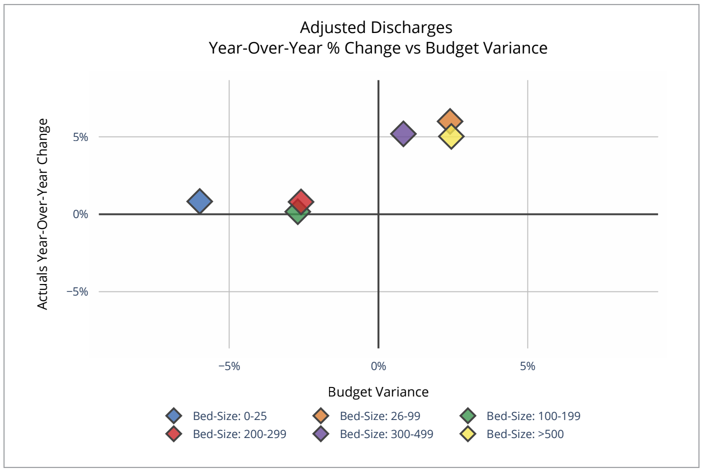
Volume *(continued)*

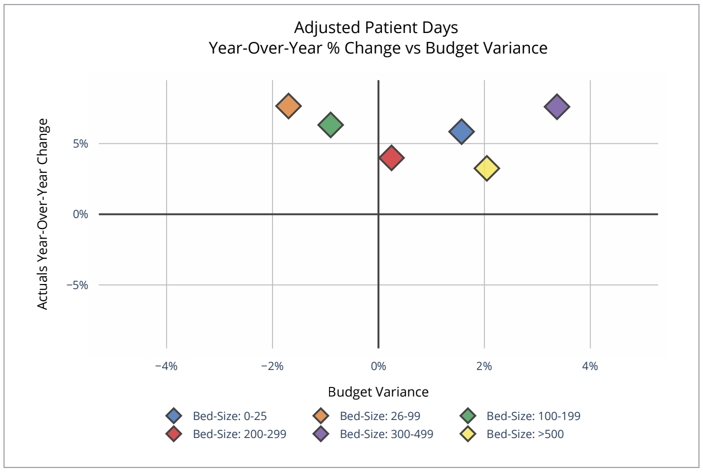
Volume by Bed Size

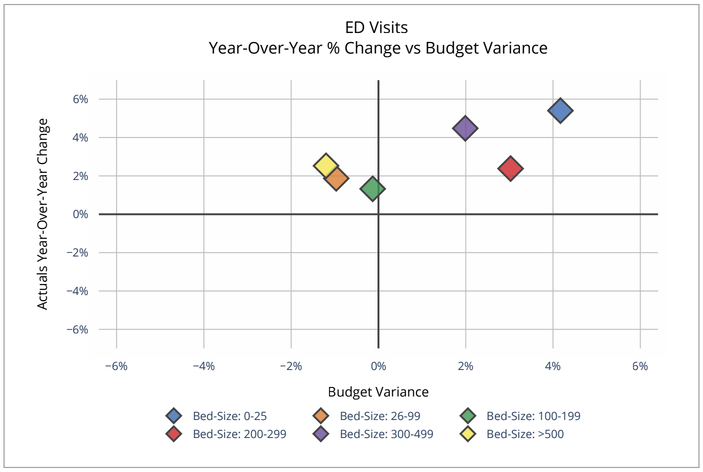
Discharges were flat or up year over year for five of six bed-size cohorts. The largest hospitals of 500 beds or more saw the biggest increase, up 5.6 percent year over year and 2.2 percent to budget. The smallest hospitals of 0-25 beds were the only cohort to see a year-over-year decrease, falling -7.9 percent, and performing -8.7 percent compared to budget.

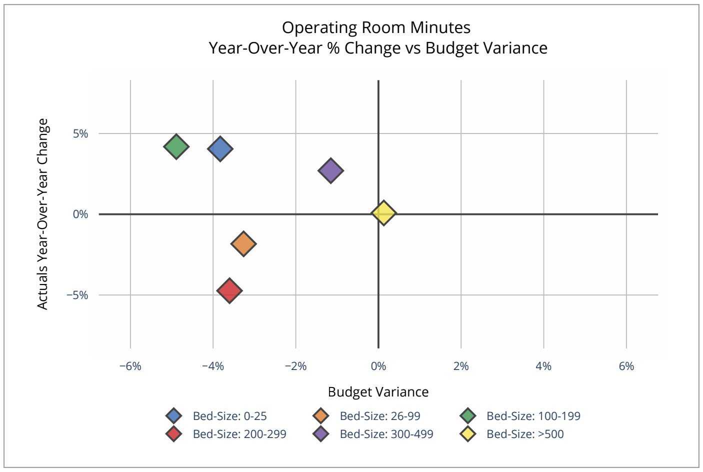
Adjusted Discharges and Adjusted Patient Days rose year over year across all bed-size cohorts. Hospitals with 26-99 beds saw among the biggest year-over-year increases, up 6.0 percent for Adjusted Discharges, and 7.7 percent for Adjusted Patient Days. Hospitals with 100-199 beds saw the least increase for Adjusted Discharges at just 0.2 percent, while hospitals with 500 beds or more saw the least increase for Adjusted Patient Days at 3.3 percent.

Average LOS increased year over year and compared to budget in February for five of six bed-size cohorts.









Volume *(continued)*

Volume by Bed Size *(continued)*

Larger hospitals with 300-499 beds saw the biggest year-over-year increase at 4.3 percent. Smaller hospitals with 26-99 beds also were up year over year at 3.2 percent, but was the only cohort to perform below budget at -0.8 percent.

ED Visits also were up year over year across all bed-size cohorts, but half of cohorts fell below budget for this metric while half performed above budget. The smallest hospitals of 0-25 beds saw the greatest increases, up 5.4 percent year over year and 4.2 percent to budget.

OR Minutes were more varied, with three cohorts up year over year but below budget, two cohorts down year over year and below budget, and just one cohort—hospitals with 500 beds or more—up slightly year over year and to budget.

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Revenue

National Revenue Observations

Revenue metrics were up year over year and month over month for most metrics. Net Patient Service Revenue (NPSR) per Adjusted Discharge rose 3.0 percent year over year and 0.7 percent month over month, and was slightly above budget at 0.2 percent.

NPSR per Adjusted Patient Day rose just 0.1 percent year over year and 0.9 percent month over month, but was -3.0 percent below budget. Inpatient/Outpatient (IP/OP) Adjustment Factor rose 2.5 percent year over year and 0.7 percent month over month, and was up 1.1 percent to budget.

Bad Debt and Charity as a Percent of Gross rose 1.5 percent compared to February 2019, but was the only metric to fall -0.7 percent compared to January 2020, performing -2.1 percent to budget.

Revenue % Change

	Budget Variance	Month Over Month	Year Over Year
NPSR per Adjusted Discharge	0.2%	0.7%	3.0%
NPSR per Adjusted Patient Day	-3.0%	0.9%	0.1%
IP/OP Adjustment Factor	1.1%	0.7%	2.5%
Bad Debt and Charity as a % of Gross	-2.1%	-0.7%	1.5%

Unless noted, figures are Actuals and Medians

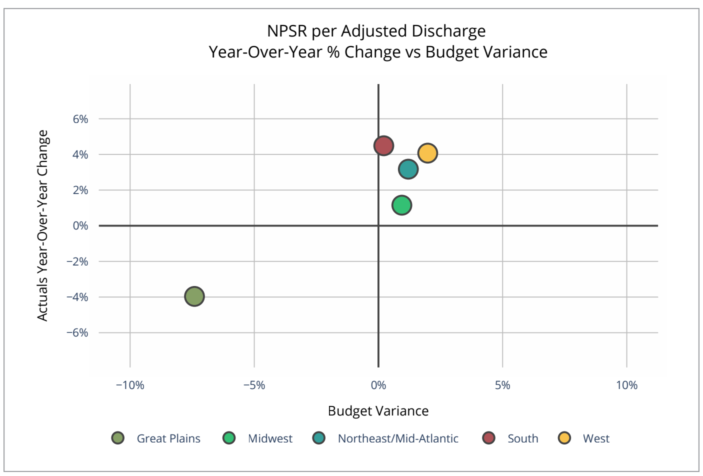
Revenue *(continued)*

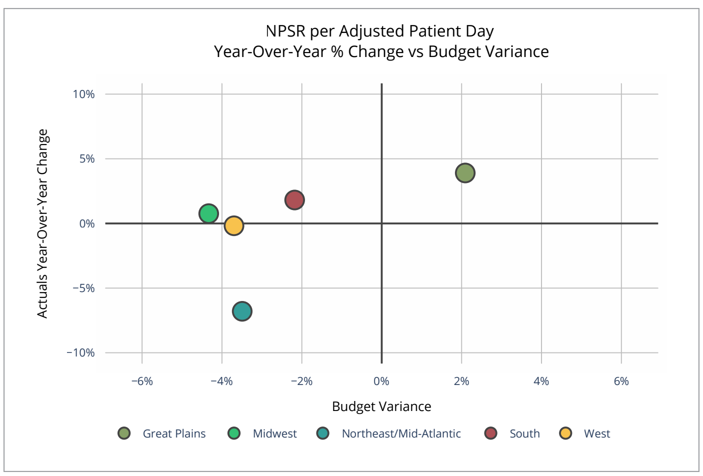
Revenue by Region

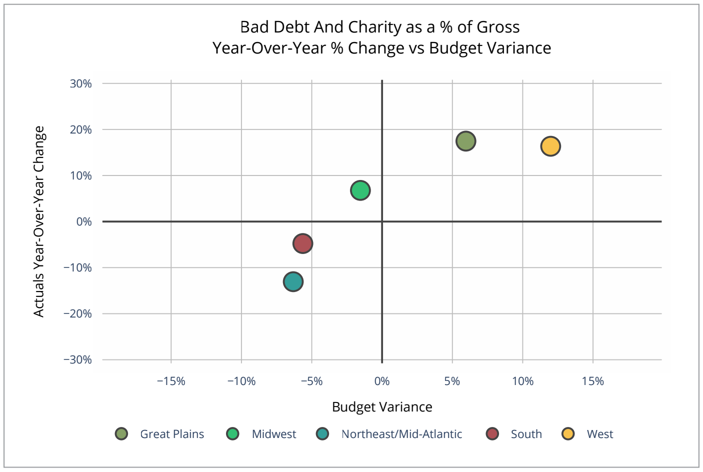
NPSR per Adjusted Discharge was up year over year and compared to budget in four of five regions across the country in February. The South saw the biggest year-over-year increase at 4.5 percent, but was just 0.2 percent to budget. The Great Plains was the outlier, falling -4.0 percent year over year and -7.4 percent to budget.

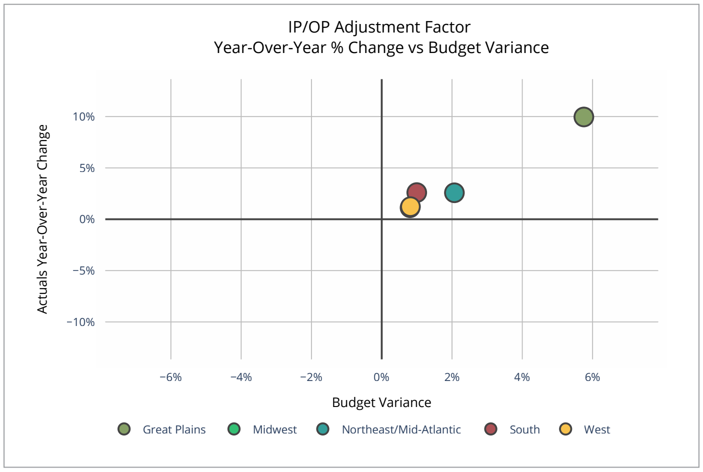
NPSR per Adjusted Patient Day rose year over year in the Midwest, South, and Great Plains, with the Great Plains seeing the biggest increase at 3.9 percent. The West was essentially flat at -0.2 percent compared to the same period last year, while the Northeast/Mid-Atlantic was down -6.8 percent.

Bad Debt and Charity as a Percent of Gross rose year over year and compared to budget in the West and Great Plains, was up year over year but below budget in the Midwest, and fell year over year and to budget in the South and Northeast/Mid-Atlantic. The Great









Revenue *(continued)*

Revenue by Region *(continued)*

Plains saw the biggest year-over-year increase at 17.5 percent, while the Northeast/Mid-Atlantic saw the biggest year-over-year decrease at -13.1 percent.

IP/OP Adjustment Factor rose year over year and compared to budget across all regions. Performance was relatively clustered, ranging from about 1.2 percent to 2.6 percent year over year for four of five regions. The Great Plains was an outlier, with IP/OP Adjustment Factor up 10.0 percent year over year and 5.8 percent to budget, which likely is driving the NPSR per Adjusted Discharge and Adjusted Patient Day results for the region.

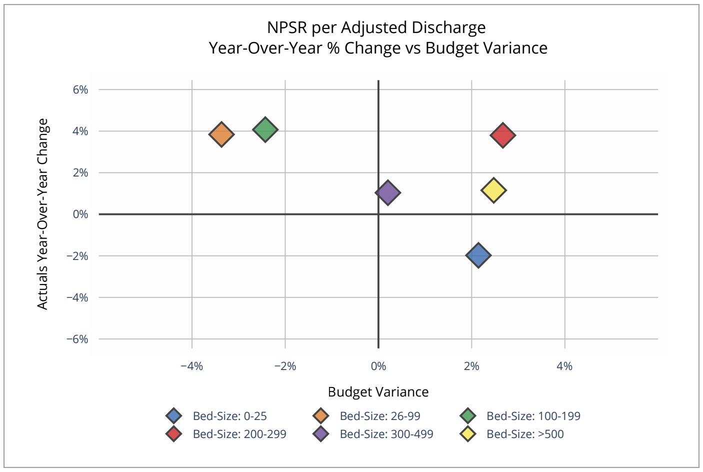
Revenue *(continued)*

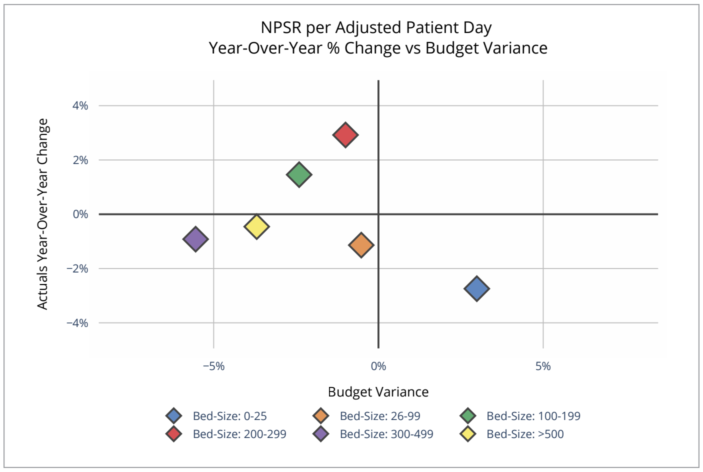
Revenue by Bed Size

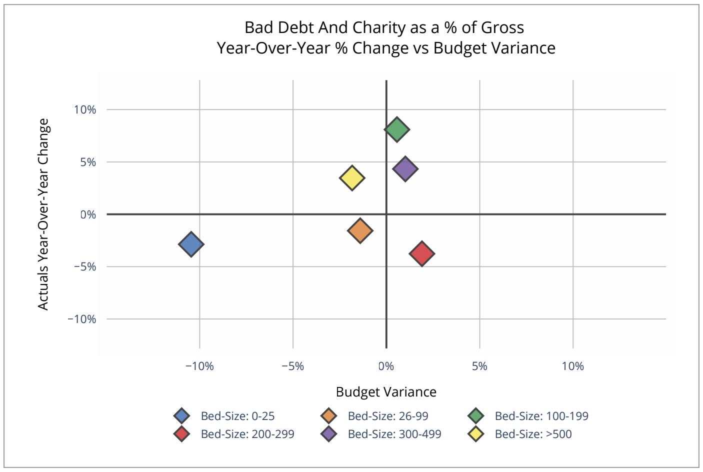
NPSR per Adjusted Discharge rose year over year for five of six bed-size cohorts. Hospitals with 100-199 beds saw the biggest increase at 4.1 percent year over year, while those with 300-499 beds saw the least increase at 1.0 percent. The nation's smallest hospitals of 0-25 beds were the only cohort to see a year-over-year decrease at -2.0 percent. Four of six cohorts performed favorable to budget, with bed-size cohorts 26-99 and 100-199 falling below budget.

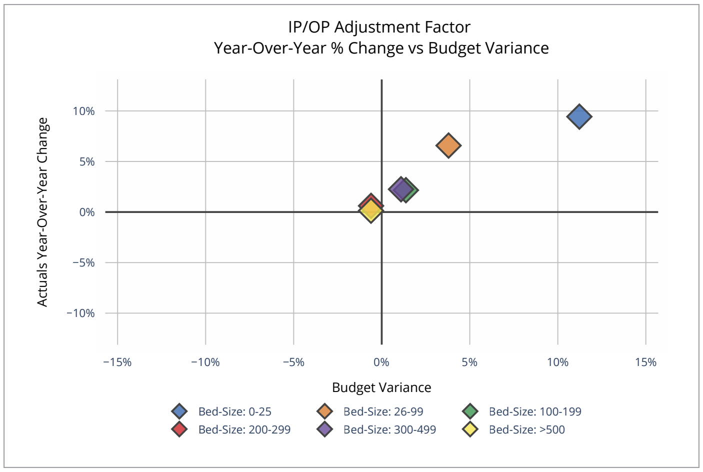
NPSR per Adjusted Patient Day fell below budget in all but one bed-size cohort. Hospitals with 200-299 beds saw the biggest year-over-year increase at 2.9 percent, but was -1.0 percent to budget. Hospitals with 0-25 beds were the only cohort to perform above budget at 3.0 percent, but saw the biggest year-over-year decrease at -2.7 percent.

The IP/OP Adjustment Factor was up from February 2019 levels and compared to budget for four of six









Revenue *(continued)*

Revenue by Bed Size *(continued)*

bed-size cohorts, indicating continued growth in outpatient volume across each cohort. The smallest hospitals of 0-25 beds saw the biggest increases, up 9.4 percent year over year and 11.2 percent to budget. Hospitals with 200-299 and 500 or more beds both were up just about 0.1 percent year over year, but fell -0.6 percent below budget.

Bad Debt and Charity as a Percent of Gross was up year over year for hospitals with 100-199, 300-499, and 500 beds or more, but down year over year for those with 0-25, 26-99, and 200-299 beds. Hospitals with 100-199 beds saw the biggest year-over-year increase at 8.1 percent, while those with 200-299 beds saw the biggest year-over-year decrease at -3.8 percent.

Expense

National Expense Observations

Hospitals across the country saw expenses increase in February. Total Expense per Adjusted Discharge rose 2.2 percent year over year, 3.3 percent month over month, and was 1.5 percent above budget. Labor Expense per Adjusted Discharge saw the biggest year-over-year increase compared to other expense metrics, at 3.4 percent. This metric also rose 1.6 percent compared to January, and was up 2.9 percent to budget. Full-Time Equivalents (FTEs) per Adjusted Occupied Bed (AOB) increased 1.4 percent month over month, but was the only expense metric to see a slight year-over-year decline, at -0.4 percent. FTEs per AOB also fell below budget at -2.6 percent.

Non-Labor Expense per Adjusted Discharge rose 0.7 percent year over year, 1.4 percent to budget, and 4.3 percent month over month. Supply Expense per Adjusted Discharge rose 2.3 percent year over year and 1.0 percent to budget, and was essentially flat month over month at just -0.1 percent.

Drug Expense per Adjusted Discharge rose 2.4 percent compared to February 2019, but was down -1.1 percent compared to January 2020, and -3.0 percent to budget. Purchased Service Expense per Adjusted Discharge rose 3.1 percent year over year. However, this metric saw the biggest increases compared to other expense metrics, both month over month and to budget at 8.5 percent and 3.1 percent, respectively.

Expenses % Change

	Budget Variance	Month Over Month	Year Over Year
Total Expense per Adjusted Discharge	1.5%	3.3%	2.2%
Labor Expense per Adjusted Discharge	2.9%	1.6%	3.4%
FTEs per AOB	-2.6%	1.4%	-0.4%
Non-Labor Exp per Adjusted Discharge	1.4%	4.3%	0.7%
Supply Expense per Adjusted Discharge	1.0%	-0.1%	2.3%
Drug Expense per Adjusted Discharge	-3.0%	-1.1%	2.4%
Purchased Service Expense per Adjusted Discharge	3.1%	8.5%	3.1%

Unless noted, figures are Actuals and Medians

Expense *(continued)*

Expense by Region

Hospitals in four of five regions—the South, Northeast/Mid-Atlantic, West, and Midwest—all saw increases year over year and compared to budget for both Total Expense per Adjusted Discharge and Labor Expense per Adjusted Discharge. The Northeast/Mid-Atlantic region saw the largest year-over-year increases for both metrics, up 6.1 percent for Total Expense per Adjusted Discharge, and 7.0 percent for Labor Expense per Adjusted Discharge.

Non-Labor Expense per Adjusted Discharge rose year over year and compared to budget in the Northeast/Mid-Atlantic, South, and Midwest, but was down year over year and to budget in the West and Great Plains. The Northeast/Mid-Atlantic again saw the biggest year-over-year increase at 4.9 percent, and was 3.0 percent above budget. The Great Plains saw the biggest year-over-year decrease in Non-Labor Expense per Adjusted Discharge at -2.1 percent, and fell -4.3 percent below budget.

Supply Expense per Adjusted Discharge rose year over year in the Northeast/Mid-Atlantic, Midwest, and South, and was essentially flat year over year in the Great Plains. The West was the only region to see a year-over-year decrease in Supply Expense per Adjusted Discharge at -0.4 percent, falling -1.3 percent below budget expectations.

All regions were below budget for Drug Expense per Adjusted Discharge in February. The Northeast/Mid-Atlantic saw the biggest drop to budget at -8.4 percent, but rose 6.6 percent year over year. The South and West also saw year-over-year increases in Drug Expense per Adjusted Discharge, while the Great Plains was flat and the Midwest was down -0.6 percent.

Purchased Service Expense per Adjusted Discharge rose year over year and compared to budget in the Northeast/Mid-Atlantic, South, and Midwest. The Midwest saw the biggest increases, up 5.1 percent year over year and 8.1 percent to budget. The West saw the biggest year-over-year decrease in Purchased Service Expense at -4.9 percent, but still was 5.8 percent above budget. The Great Plains was down -3.0 percent year over year, and was the only region to perform below budget for this metric, at -1.1 percent.

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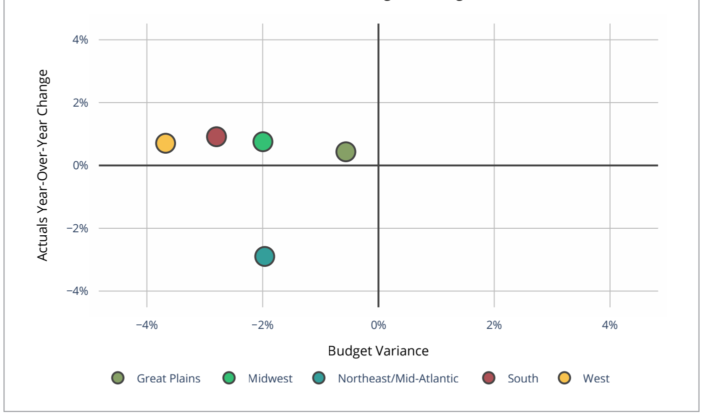
Expense *(continued)*

Expense by Region *(continued)*

Labor Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance

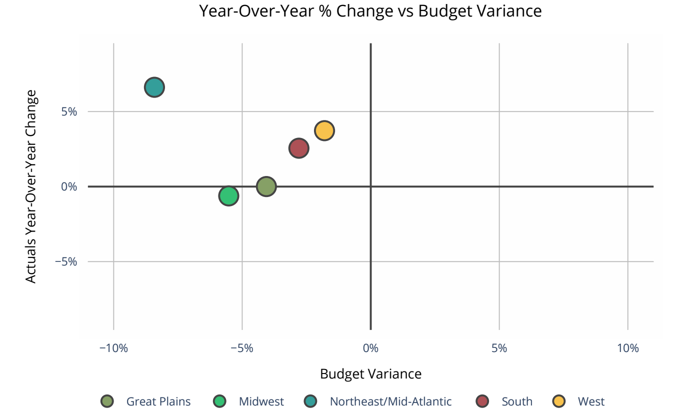
FTEs per AOB
Year-Over-Year % Change vs Budget Variance



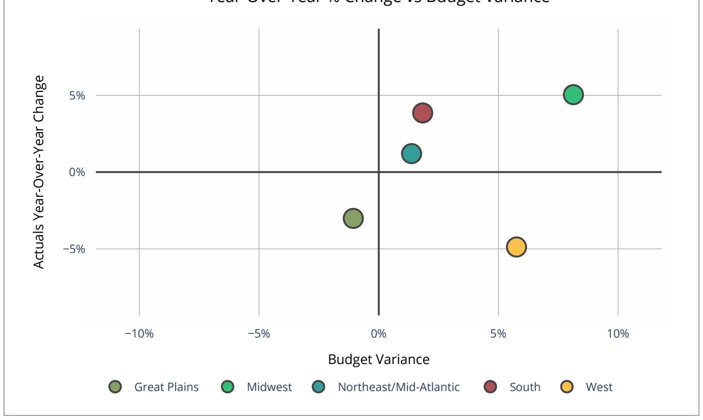
Non-Labor Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance

Supply Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance

Drug Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance



Purchased Service Expense per Adjusted Discharge
Year-Over-Year % Change vs Budget Variance



Expense *(continued)*

Expense by Bed Size

Total Expense per Adjusted Discharge rose year over year and compared to budget across four of six bed-size cohorts. The smallest hospitals of 0-25 beds saw the biggest year-over-year increase at 4.4 percent, and also performed 4.4 percent above budget. Hospitals with 300-499 were up 1.7 percent year over year for Total Expense per Adjusted Discharge, but fell in line with budget, while hospitals with 26-99 beds were up 0.4 percent year over year, but were the only cohort to fall below budget at -1.8 percent.

Labor Expense per Adjusted Discharge rose year over year and to budget across all bed-size cohorts in February. The smallest hospitals with 0-25 beds saw the biggest year-over-year jump at 7.9 percent, and was 5.4 percent over budget. Hospitals with 26-99 beds saw the least increase, up just 1.2 percent year over year and close to budget at 0.1 percent.

FTEs per AOB were below budget expectations at five of six bed-size cohorts, and only two cohorts saw year-over-year increases. Hospitals with 200-299 beds were up 3.5 percent year over year, and 0.5 percent to budget, while those with 500 beds or more increased 0.9 percent year over year, but fell -2.0 percent to budget.

Five of six bed-size cohorts saw increases in Non-Labor Expense per Adjusted Discharge, with 200-299 bed hospitals seeing the biggest jump at 4.1 percent compared to February 2019 and 5.6 percent to budget. Hospitals with 300-499 beds were the only cohort to see a year-over-year decrease for this metric at -1.6 percent.

Supply Expense per Adjusted Discharge increased year over year and to budget for hospitals with 100-199 and 200-299 beds, and increased year over year but fell below budget for hospitals with 0-25 and 26-99 beds. Larger hospitals with 300-499 and 500 or more beds both saw year-over-year decreases for Supply Expense per Adjusted Discharge, but were above budget.

Drug Expense per Adjusted Discharge rose year over year for three bed-size cohorts, and decreased for three cohorts. The smallest hospitals with 0-25 beds saw the biggest year-over-year increase in these expenses at 8.2 percent, while the largest hospitals with 500 beds or more saw the biggest decrease at -2.0 percent.

Purchased Service Expense per Adjusted Discharge increased year over year and to budget for four of six bed-size cohorts. The exceptions were hospitals with 26-99 beds, which were up 1.0 percent year over year but -3.0 percent to budget, and hospitals with 300-499 beds, which decreased -4.5 percent year over year, but were 0.8 percent above budget expectations.

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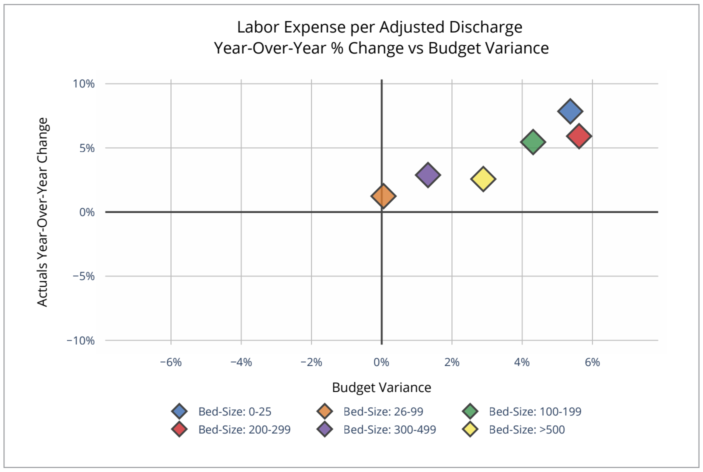
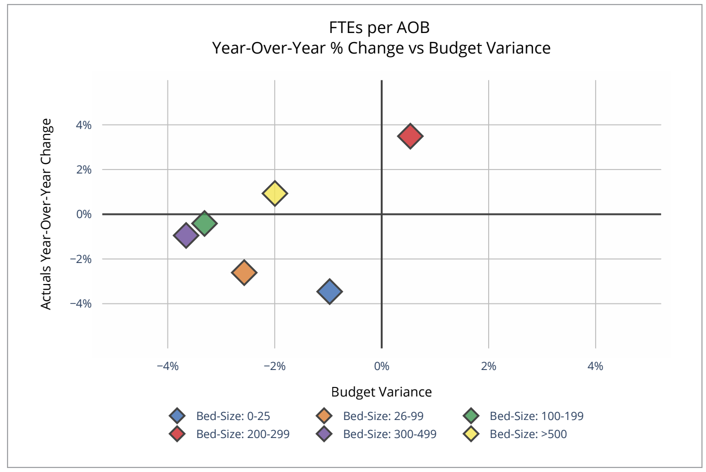
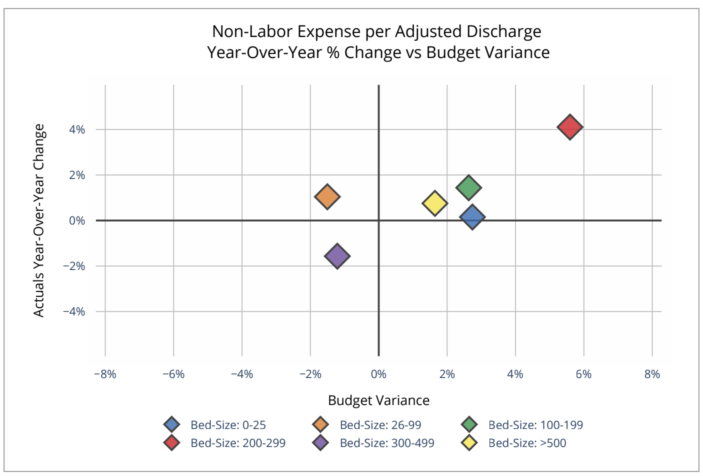
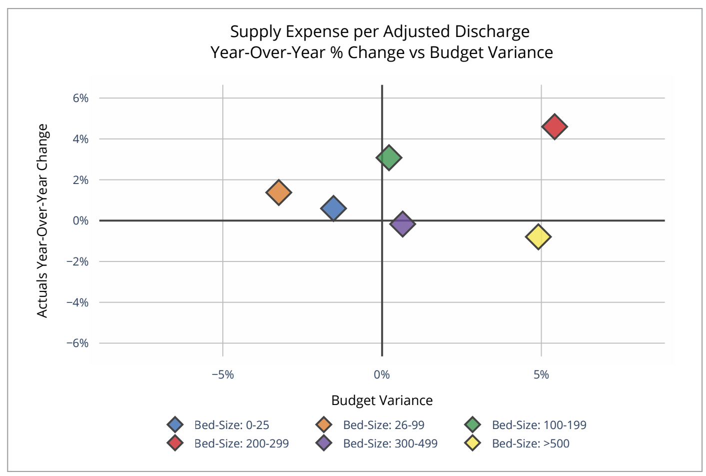
Expense *(continued)*

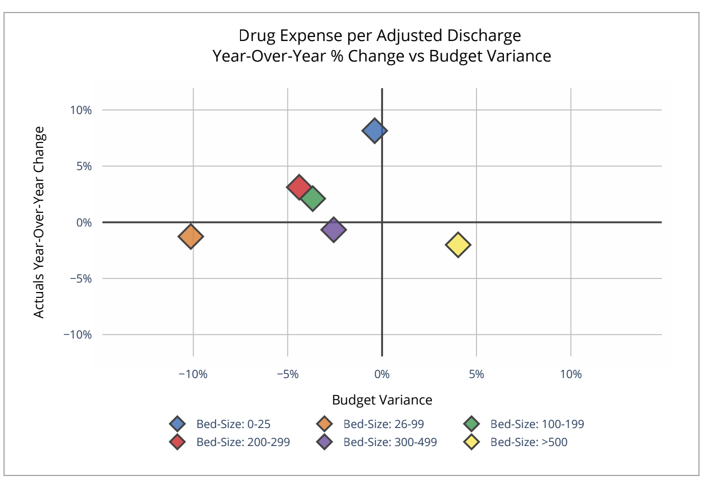
Expense by Bed Size *(continued)*

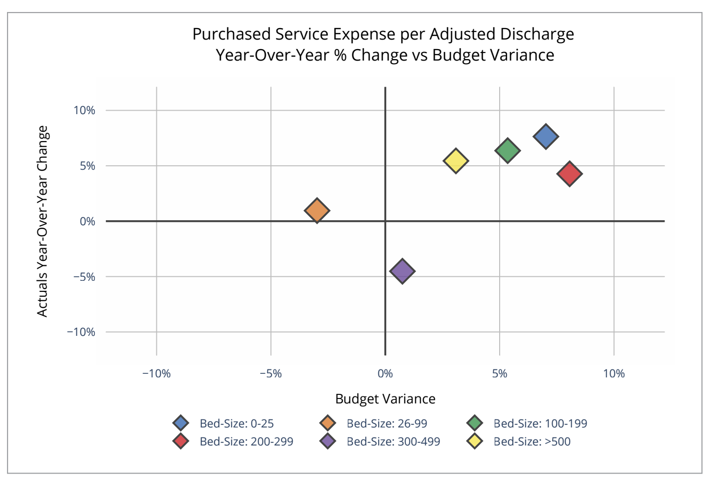












Non-Operating

National Non-Operating Observations

The Bureau of Economic Analysis provided its "second estimate" for fourth-quarter U.S. Gross Domestic Product (GDP) growth, reaffirming January's 2.1 percent estimate. Overall GDP growth in 2019 was 2.3 percent, below 2018's 2.9 percent increase and 2017's 2.4 percent growth. The reaffirmed estimate still falls below the White House's 3 percent target.

Total nonfarm payroll employment added an impressive 273,000 jobs in February—including nearly 183,000 from U.S. private labor markets—bringing unemployment to a 50-year low of 3.5 percent, down from 3.6 percent in January. Healthcare continued to boost employment, adding 32,000 jobs in February, of which hospitals contributed 8,000.

February was marked by volatility and uncertainty for Wall Street. Equities began the month on strong footing, with the S&P 500 continuing its all-time highs. The unprecedented bull run quickly came to a halt due to mounting concerns as COVID-19 rapidly spread beyond China to epicenters like South Korea, Italy, and the U.S. Within 10 days, the S&P 500 plummeted nearly 13 percent, wiping away nearly all the prior six months' gains. Investors closed February on a note of immense uncertainty, with fears that COVID-19 may continue to negatively impact equity markets worldwide.

The extreme volatility and downward movement in global equities persisted into March, as the World Health Organization officially declared COVID-19 a

	February 2020	M-o-M Change	Y-o-Y Change	March MTD Change*
General				
GDP Growth†	2.3%	n/a	n/a	n/a
Unemployment Rate	3.5%	n/c	-30 bps	n/a
Personal Consumption Expenditures, Y-o-Y	1.6%	0 bps	0 bps	n/a
Liabilities				
1m LIBOR	1.52%	-15 bps	-98 bps	-57 bps
30yr MMD	1.52%	-28 bps	-146 bps	145 bps
30yr Treasury	1.68%	-32 bps	-141 bps	-32 bps
Assets				
60/40 Asset Allocation**	n/a	-4.06%	+6.87%	-15.31%

† U.S. Bureau of Economic Analysis, Q4 2019 "Second Estimate"
* As of market close, March 23, 2020
** 60/40 Asset Allocation assumes 30% S&P 500 Index, 20% MSCI World Index, 10% MSCI Emerging Markets Index, 40% Barclays US Aggregate Bond Index

Non-Operating *(continued)*

National Non-Operating Observations (continued)

pandemic. The S&P 500 plunged more than 25 percent since the start of 2020, while the MSCI World and MSCI Emerging Markets indices both declined nearly 30 percent. Bearish sentiment led to steep losses throughout global equity markets, as the U.S. exchanges saw multiple limit-down "circuit breakers" take effect to prevent drastic downward movements. The market turbulence eliminated equity gains generated since the start of the Trump Administration, and effectively ended the historic 11-year bull run in the market.

The federal government has taken fiscal and monetary measures to calm widespread panic. The Federal Reserve slashed interest rates to a range of 0-0.25 percent (down from 1-1.25 percent), and instituted a plan to provide a $1.5 trillion injection to "address highly unusual disruptions in Treasury financing markets associated with the coronavirus outbreak."

Congress is working on a potential direct cash infusion to U.S. citizens to ease financial distress. Even so, global economies remain fearful as nations move to contain the virus' spread through increasingly aggressive measures, such as curfews, business shutdown mandates, and border closures. Global health experts warn the virus may remain rampant for the foreseeable future. Consequently, investors continue to approach the market with extreme caution, and seek haven from volatile investments.

Non-Operating *(continued)*

Non-Operating Liabilities

Concerns over the global impacts of COVID-19 dominated markets in February. Investors continued to seek low-risk assets, driving treasury rates down for the second consecutive month to start 2020, as 30-year Treasury bonds fell to 1.68 percent. The 10-year Treasury bond ended February at a record low 1.15 percent. Municipal rates declined even further from historically low levels in January, with 30-year MMD down 28 bps month over month to 1.52 percent. In the short-term markets, 1M LIBOR finished February at 1.52 percent, down 98 bps year over year. The tax-exempt short-term rate SIFMA rose 21 bps to 1.15 percent, but down 46 bps since the start of the year.

Municipal fund flows remained strong in February, with $10.35 billion entering the market as investors failed to predict the havoc COVID-19 would cause on all sectors, from state and local governments, to transportation, education, and hospitals. Municipal bonds continued to be viewed as a safe haven, as investors pulled $19.5 billion from domestic equity funds, maintaining a "risk-off" approach to stock market volatility. Including February, domestic equity funds experienced 13 straight months of outflows, while municipal funds marked 14 straight months of inflows.

However, municipal fund flows have seen a stark reversal as the pandemic's devastating effects have become clearer to investors, with more than $15 billion of redemptions in March at publishing time. After years of being in lockstep, U.S. Treasury and MMD rates experienced significant dislocation in March, as investors continued to flee municipal securities. 30-year MMD rose 145 bps in March to 2.97 percent, as 30-year U.S. Treasury bond yields fell 32 bps to a historically low 1.35 percent. Short-term municipal markets also destabilized, with SIFMA resetting most recently at 5.20 percent, up 405 bps since the start of the month, while 1M LIBOR fell 57 bps to 0.95 percent.

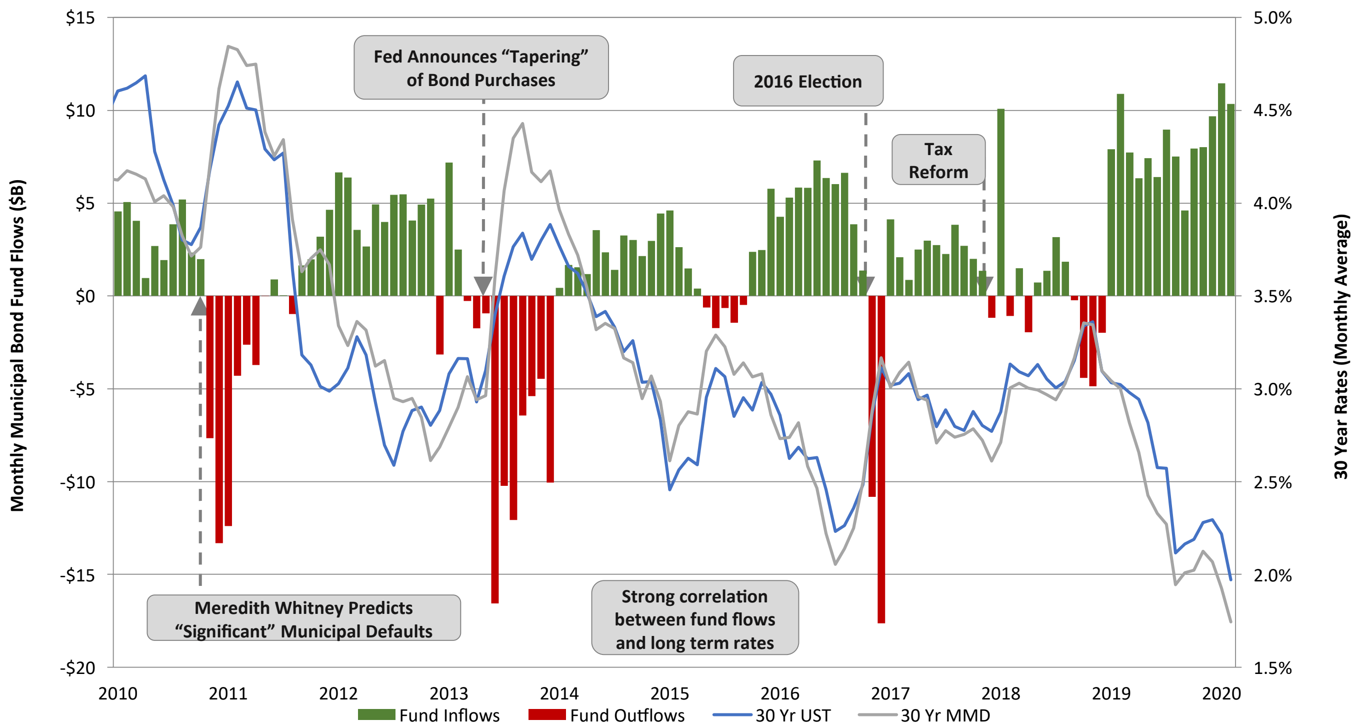
Note: Taxable and tax-exempt debt capital markets, as approximated here by the "30-yr U.S. Treasury" and "30-yr MMD Index," are dependent upon macroeconomic conditions, including inflation expectations, GDP growth, and investment opportunities elsewhere in the market. A key measure to track is bond fund flows, particularly in the more supply- and demand-sensitive tax-exempt market. Fund flows are monies moving into bond funds from new investment and principal and interest payments on existing and maturing holdings. Strong fund flows generally signal that investors have more cash to put to work, a boon to the demand. Fund inflows generally are moderate and consistent over time, while fund outflows typically are large and sudden, as external events affect investor sentiment, resulting in quick position liquidation, which can drive yields up considerably in a short amount of time.

Non-Operating *(continued)*

Non-Operating Liabilities *(continued)*

Long Term

Monthly Municipal Bond Fund Flows with 30 Year US Treasury and 30 Year MMD

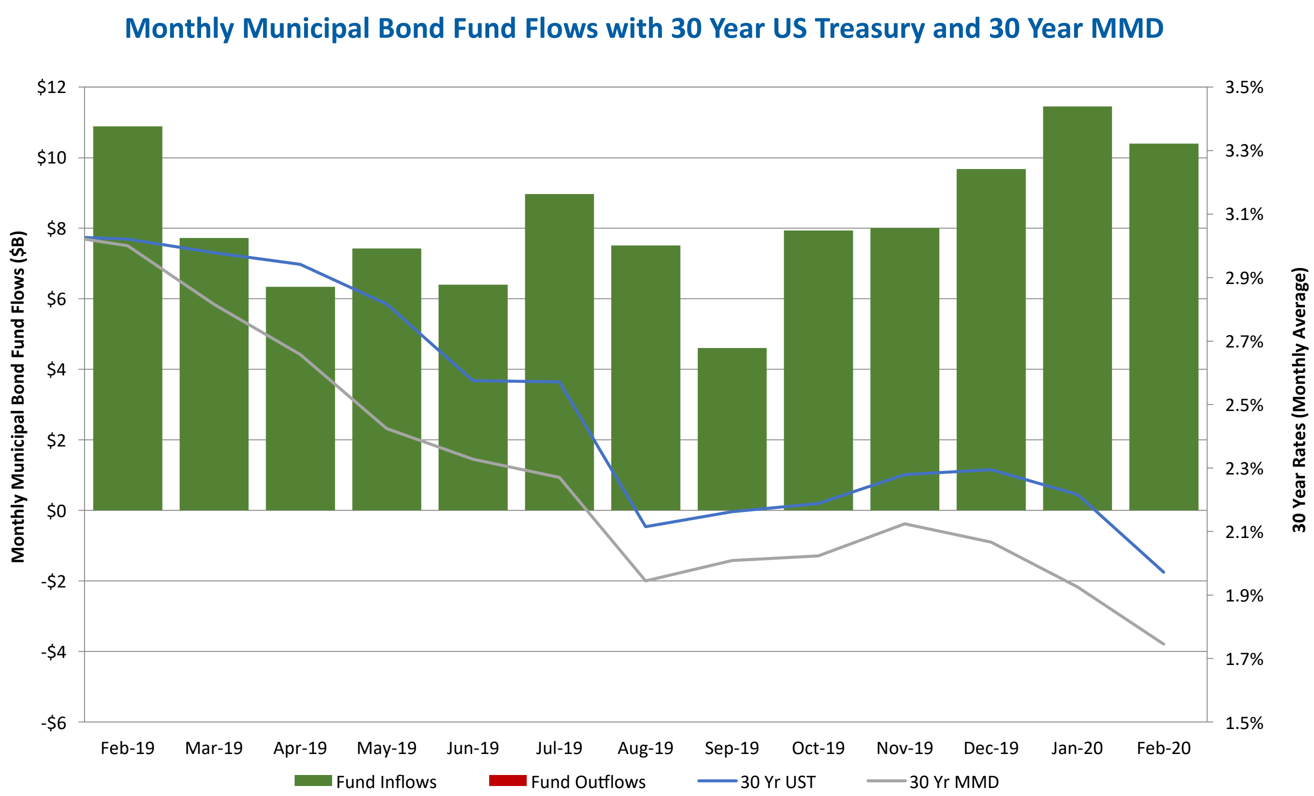


Kaufman Hall, *National Hospital Flash Report* (March 2020)

Non-Operating *(continued)*

Non-Operating Liabilities *(continued)*

Last Twelve Months



Kaufman Hall, *National Hospital Flash Report* (March 2020)

Non-Operating *(continued)*

Non-Operating Assets

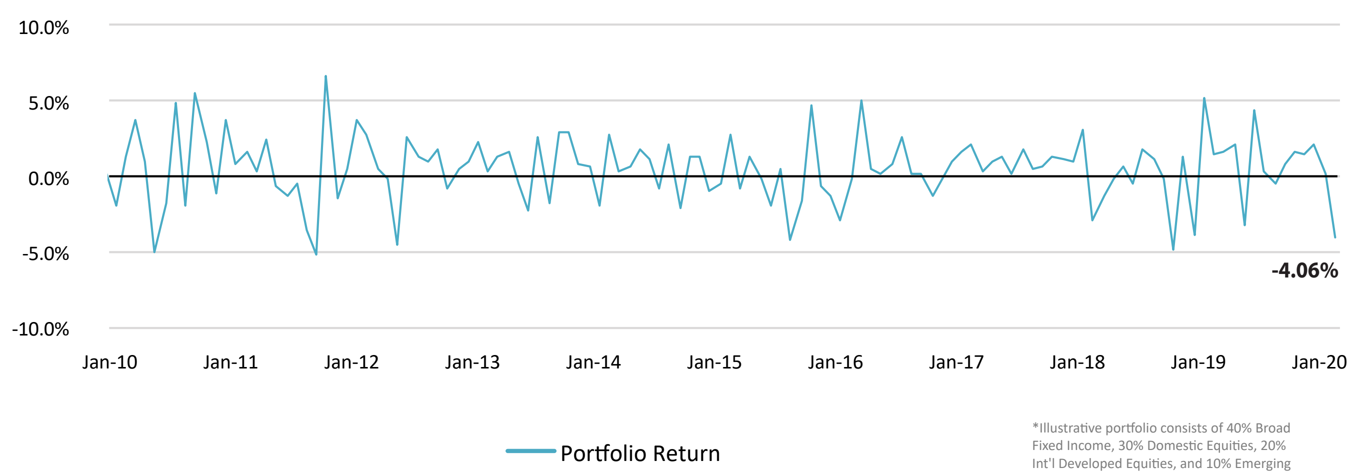
Fears over COVID-19 spooked investors as February came to a close. The last five days of trading saw the S&P 500 and Dow Jones Industrial Average plunge, wiping out almost $3 trillion in value from American equities. Oil prices fell to $44 a barrel, as Russia remained reluctant to cut production to combat anticipated declines in demand due to the COVID-19 crisis, putting further pressure on financial markets.

The S&P 500 ended February down 8.4 percent after setting record highs earlier in the month on robust economic data and President Trump's impeachment acquittal. The MSCI World Index finished down 8.6 percent and the MSCI Emerging Markets Index down 4.3 percent, leaving the Blended 60/40 Asset Allocation down 4.06 percent, as the Barclays Aggregate Bond Index climbed 1.8 percent.

March has been even more volatile, as investors continued to seek liquidity by selling assets. At publishing time, the S&P 500 was down 24.3 percent. World indices haven't fared much better, with the MSCI World Index and MSCI Emerging Markets Index down 22.9 percent and 20.1 percent, respectively. With bond prices taking a massive hit and the Barclays Aggregate Bond Index down 3.6 percent, the Blended 60/40 was down 15.31 percent to start March. Markets await the results of a congressional spending package, as well as the effects of drastic Federal Reserve actions aimed at injecting liquidity in stalling markets.

Long Term

Illustrative Investment Portfolio Returns
Month-over-Month Change



Kaufman Hall, *National Hospital Flash Report* (March 2020)

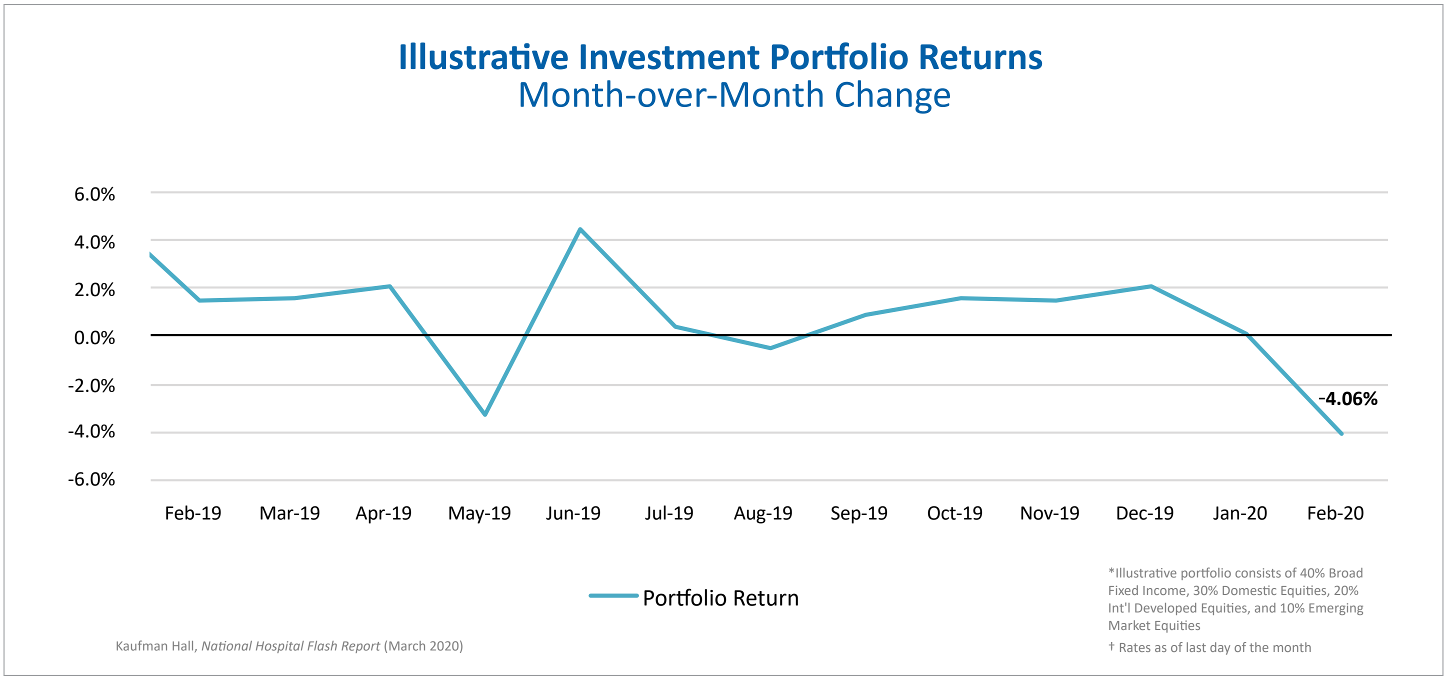
*Illustrative portfolio consists of 40% Broad Fixed Income, 30% Domestic Equities, 20% Int'l Developed Equities, and 10% Emerging Market Equities

† Rates as of last day of the month

Non-Operating *(continued)*

Non-Operating Assets *(continued)*

Last Twelve Months



Spotlight

Requesting Feedback

The coronavirus pandemic is having major impacts on our national healthcare system, and is creating all-new challenges for hospitals and health systems across the country. Kaufman Hall is providing regular updates, insights, and resources to help healthcare providers navigate these difficult times. Please visit our **Kaufman Hall Coronavirus Updates** page:

https://www.kaufmanhall.com/ideas-resources/browse-issue/coronavirus-updates

Over the coming months, we will cater the Spotlight section of the *National Hospital Flash Report* to this rapidly changing crisis. In order to provide our subscribers with the most relevant and useful information on the effects of COVID-19, we are requesting feedback from our readers and ask that you answer this question:

What key performance indicators would you like to see in real-time over the next few months?

Please submit your answers to FlashReports@kaufmanhall.com. We appreciate your continued readership through these uncertain times.

KaufmanHall

About Data

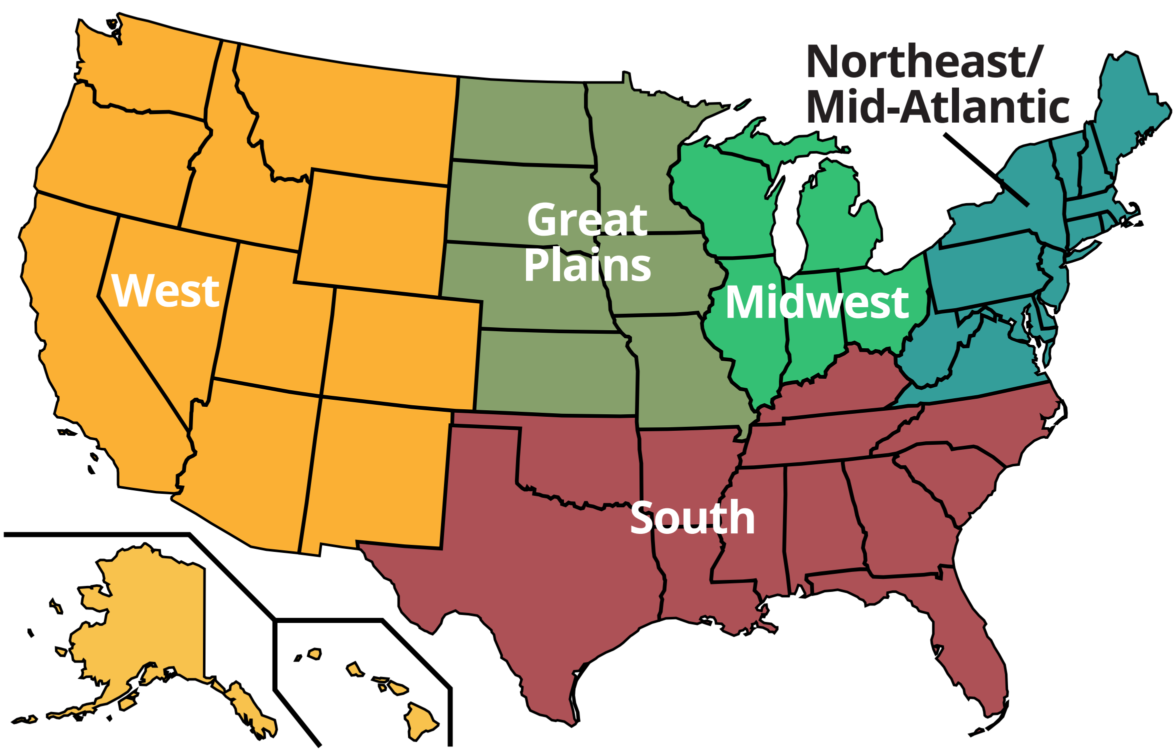
The *National Hospital Flash Report* uses both actual and budget data over the last three years, collected from over 800 hospitals on a recurring monthly basis. The sample of hospitals for this report is representative of all hospitals in the United States, both geographically and by bed size. Additionally, hospitals of all types are represented, from large academic to small critical access hospitals. Advanced statistical techniques are used to standardize data, identify and handle outliers, and ensure statistical soundness prior to inclusion in the report.

See more information about data.

General Statistical Terms

Range: The difference in value between the maximum and minimum values of a dataset
Average (Mean): The average value of an entire dataset
Median: The value that divides the dataset in half, the middle value
1st Quartile: The value halfway between the smallest number and the median
3rd Quartile: The value halfway between the median and the largest number

Map of Regions



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Please direct all questions or comments to flashreports@kaufmanhall.com