This report aims to provide a quarterly analysis of the utilization and financial data submitted by Oregon's hospitals to the DATABANK and INFOH programs and a forward look into current trends.

Key Insights

- Workforce issues both inside hospitals as well as downstream in post-acute facilities continue to be the main driver of poor financial performance through Q3. Higher payroll expenses combined with staffing limitations and the inability to discharge patients to other settings that are having personnel shortages too are causing hospitals to lose money on many inpatient stays. Forecasts are showing that this trend will continue for the rest of 2022 and into 2023.

- Higher federal interest rates are increasing the cost of borrowing. This puts hospitals in a further downward financial spiral as they are trying to stabilize operations through loans and other financial instruments, as reflected in deteriorating margins throughout 2022.

- Emergency Rooms are overwhelmed with patients, which adversely affects operations and leads to an overwhelmed workforce and higher patient dissatisfaction.

Operating and Total Margins remain negative

- Q3 2022 Median Operating Margin and Median Total Margin saw slight improvements from the previous quarter. However, both measures of profitability remain in the negative and are at levels similar to the margins Oregon Hospitals experienced during the pandemic lockdowns in Q1 2020.

- Eight out of twelve hospital systems (operating more than one hospital in the state), and over 64% of all Oregon hospitals had negative Operating Margins in Q3 2022.

- With federal relief funds tailing off at the end of 2021, margins remain in negative territory for all three quarters of 2022. For CY 2022 year-to-date, Oregon hospitals have lost a total of $301M from operations, and have had an overall Median Operating Margin of -2.8%.

- The widespread stock market losses have also driven Q3 Median Total Margin downward to -3.6%. With Total Margin running below Operating Margin, there is an increase in liquidity constraint (e.g., making it more difficult and expensive for hospitals to borrow and incurring higher interest expenses).

- Q3 Margins for DRG hospitals remain below their Rural counterparts, with Median Operating Margin for DRGs at -4.2% and Rurals at -0.9%. Median Total Margins for DRGs and Rurals were -5.1% and 0.9%, respectively.

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 like grants, cafeteria and gift shop sales, or federal CARES Act funds.

- **Total Operating Expense (TOE)**: All expenses incurred from hospital’s 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 as inpatients.
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**Net Patient Revenue continues to lag behind Total Operating Expenses**

- The considerable gap between Net Patient Revenue (NPR) and Total Operating Expense (TOE) remains in Q3 2022. It has now been eight quarters since NPR was above TOE - meaning that much time has passed since hospitals have been able to cover their expense obligations through their core patient care mission activities.

- Total Operating Revenue (NPR plus other business operations revenue such as grants, leases, and CARES Act funds) has stayed below TOE throughout the current calendar year (Q1-Q3).

- Facility Payroll, Physician Payroll, and Benefit Expense – all direct components of labor costs -- have increased by 35%, 22% and 20%, respectively, over the past three years.

- Other Expense, which captures labor-related purchased services (such as housekeeping, facility management, IT, professional services) along with utilities insurance, etc. increased by 28%.

- Supply Expense and Interest Expense have also increased by 25%, reflecting higher costs of goods due to supply chain disruptions, inflation, and the higher cost of borrowing.

**Capacity challenges**

**Average Length of Stay (ALOS)**

- The rolling four-quarter ALOS for Q3 2022 is now 5.65 days, a slight increase from the previous quarter (5.58). This is 20% higher compared to pre-pandemic levels of 4.7 for Q4 2019.

- Staffing shortages and the inability for hospitals to discharge patients to post-acute settings (nursing homes, rehab facilities, etc) are keeping ALOS high. Longer ALOS costs hospitals more and does not translate to additional revenue due to fixed reimbursements.

- Emergency Room (ER) visits have been rising consistently throughout CY 2022 and are now roughly 7% higher than pre-pandemic levels. More ER visits have resulted in longer wait times, extended ER boarding periods, heightened strain on hospital admissions, and increased the need to divert patients due to capacity pressures.