MHA Insight
FEBRUARY 2023

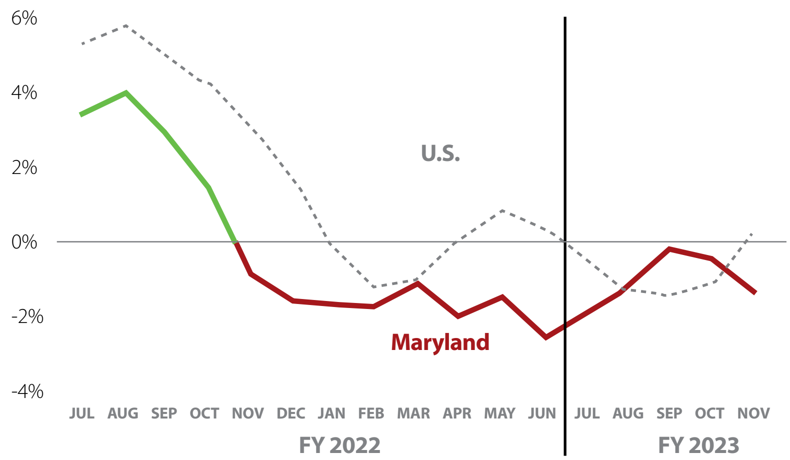
Maryland Hospitals Suffer Financial Distress as COVID Pandemic Effects Reverberate

Cost inflation, historic and persistent workforce shortages, and the COVID-19 pandemic and its aftershocks have weakened Maryland hospitals' finances. When hospitals lack financial resources, the health of everyone in our communities is at risk.

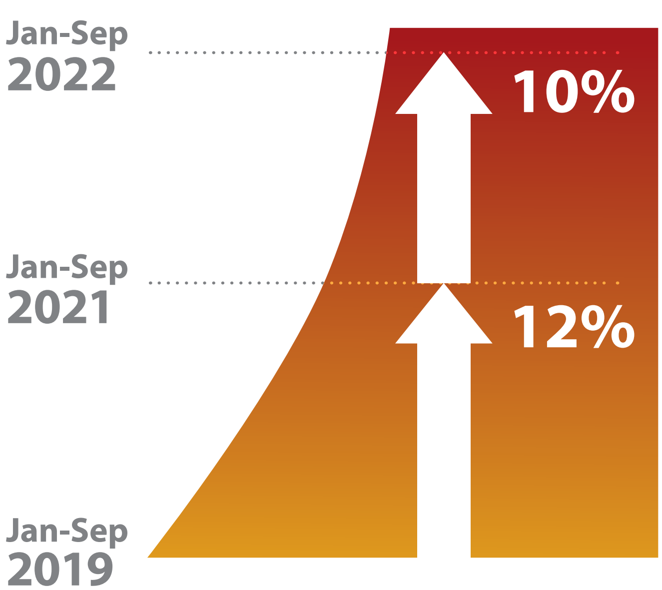
Hospital and Health System Margins Reach All-Time Lows

During the height of the pandemic, the federal and state governments helped make sure hospitals had the resources needed to protect communities and save lives. That revenue support is gone yet Maryland hospitals face unprecedented—and likely irreversible—high costs. The effect: most Maryland hospitals have suffered operating losses in most months since October 2021. These losses generally are greater than compared to counterparts in the rest of the country, where hospitals have more tools available to grow revenue.

MARYLAND HOSPITAL MARGINS DIVE BELOW NATION
3-Month Rolling Average Operating Margin



FAST RISING COSTS OF HOSPITAL LABOR



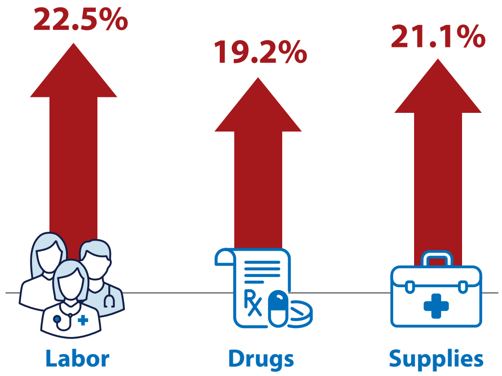
Labor Market Inflation Driving Hospital Costs Up

The single largest factor hurting hospital finances is the changing labor market. With 1 in every 5 hospital positions vacant, hospitals have continued to need contract labor—or temporary, non-staff workers—to ensure access to critical services.

For all of fiscal year 2022, hospitals spent more than $1 billion on contract labor to cover open positions, more than doubling $400 million spent in 2021. Prior to the pandemic, Maryland's hospitals collectively spent $150 million on contract labor. Entering 2023, annualized costs of contract labor remain high, at $600 million.

Hospitals have been working to reduce the reliance on contract labor, by enhancing benefit packages and raising permanent wages. **Nursing wages are up 25% from pre-pandemic levels.**

HOSPITAL EXPENSE CATEGORIES
FY 2019 to FY 2022



Hospitals' Costs for Other than Personnel Have Climbed, Too

Non-labor expenses also are greatly elevated from pre-pandemic levels. Costs for drugs, supplies and other inputs such as utilities, leases, and software remain high.

All expense categories are projected to remain approximately 20-25% above pre-pandemic levels, with drug and supplies rising the most.

Financial Squeeze on Hospitals Hurts Efforts to Keep Up with the Pace of Change

Maryland's hospitals continue to have less cash and less retained earnings relative to long-term debt when compared to hospitals across the nation. This limits the ability to finance capital improvements and invest in new technologies. If these deficits are not improved, borrowed dollars will cost the state's hospitals more and add years to fiscal recovery.

Maryland Health System Financials Unfavorable to Nation

	FY 2020	FY 2021
Days Cash on Hand	C	C
Cash to Debt Ratio	F	F
Debt to Capital Ratio (financial leverage)	F	D

Growth of Regulated Revenue Has Not Covered Hospitals' Cost Inflation

Maryland is the only state in the U.S. having a government regulator that sets hospital prices for all payers. The Health Services Cost Review Commission also fixes each hospital's operating revenues every year. If the Commission doesn't fully recognize the effects of inflation, hospitals either lose money or they must curtail services.

Over the nine years since this regulatory regime was launched, on average, hospital cost inflation has been under-recognized by 1.3% per year. This figure compounds year over year, creating an ever-widening gap. In the last two years, the shortfall more than doubled, leaving Maryland hospitals underfunded by hundreds of millions of dollars yearly.

Underfunding of Hospitals' Cost Inflation in 2022-2023

2.96%
below actual cost inflation

$600 million
lost revenue per year

The Takeaway: **Maryland's unique hospital payment system promotes stability and health equity in normal times, but the pandemic has shaken hospitals' financial foundations. Further deterioration in the financial health of hospitals could jeopardize access to vital patient care services, thwart community outreach, and slow modernization efforts.**

Maryland policymakers can help by rebuilding the health care workforce and by easing the regulatory burdens on hospitals that add to costs without measurably improving patient care and the health of Marylanders.

Sources: Monthly financial hospital submissions to Health Services Cost Review Commission (FSA files); Kaufman Hall National Flash Reports; S&P U.S. Not-For-Profit Acute Health Care Report; MHA Labor Cost Survey