CHART
Center for Health Analytics, Research & Transformation at NJHA

BULLETIN

At Mid-Year, COVID-19 Financial Wounds Continue for N.J. Hospitals

New Jersey's first COVID-19 patient was hospitalized on March 4. Less than six weeks later, April 14, the state reached its peak of coronavirus hospitalizations, with 8,147 patients occupying hospital beds across the state. Meanwhile, others facing healthcare conditions beyond COVID-19 remained at home during the state's two-month shutdown of elective procedures. At the mid-point of 2020, New Jersey's hospitals continue to deal with an economic fallout that hasn't been seen since 1998 when hospitals struggled under deep Medicare cuts in the federal Balanced Budget Act of 1997.

The mid-year snapshot from NJHA's Center for Health Analytics, Research & Transformation (CHART) shows the impact of COVID-19 on hospital finances and utilization. It reveals the following dramatic shifts between the second quarter of 2019 and the second quarter of 2020:

- Average statewide operating margin fell from 3.7 percent to negative 4 percent.
- Patient revenues declined 6.6 percent.
- Emergency department cases plummeted 23 percent.
- Hospital admissions fell by 8 percent.
- Outpatient visits dropped by 22 percent.
- And total expenses jumped 12 percent.

These results point to lingering financial wounds for the state's hospitals. Key financial metrics reflect the bottom-line impacts associated with fewer patients going to the hospital. The average operating margin at negative 4.0 percent reflects nearly six out of 10 hospitals posting net losses through June 2020. In comparison, for the first half of 2019 the average margin was a positive 3.7 percent and fewer than one-third of hospitals reported losses. With progress being made on the public health front in controlling the spread of COVID-19 cases, the next health challenge for our state is preserving New Jersey's hospitals and the healthcare delivery system from the devastating – and lingering – financial impacts of this pandemic.

Change in key indicators for N.J. hospitals: 2020 vs. 2019*	
Emergency Department Visits	-23%
Admissions	-8%
Outpatient Visits	-22%
Patient Revenues	-6.6%
Total Expenses	+12%
Average Operating Margin	from 3.7% to -4%

**data reflects activity from 1/1 to 6/30 for both years*

Surge, then Slump

In typical times, without a public health emergency, there are approximately 21,000 beds prepared for patients throughout the state. On average 65 percent of those beds are filled. Thus, on any given day approximately 13,600 patients occupy a bed at one of New Jersey's 71 acute care hospitals. The influx of more than 8,100 cases due to COVID-19 presented challenges for hospitals beyond the priority of saving lives and containing the spread of the virus. Hospitals rapidly expanded ICU bed capacity during the springtime surge, temporarily increasing capacity by 60 percent.

Since the peak on April 14, the number of hospitalized COVID-19 patients decreased, with the statewide patient count at 443 as of Sept. 28. The rate of transmission (which indicates the average number of people that one person with COVID-19 is expected to infect) also dropped from more than 5.3 when the state's stay-at-home orders were first issued in March. At the end of September, the rate hovered around 1.1. These trends are promising, yet COVID-19 already adversely affected hospitals in New Jersey through decreased volumes of non-

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COVID-19 patients, skyrocketing expenses, and net reductions to revenue -- all despite federal relief funding that flowed into the state. Now, with the peak of spring surge activity in the rear-view mirror for hospitals, the road to recovery passes through flu season and potentially a pandemic resurgence this winter, presenting new challenges.

The Governor's Executive Order 109, which canceled or postponed indefinitely all elective surgeries effective March 27, produced the most significant financial impacts for hospitals in the initial months of the coronavirus crisis. According to survey results CHART published in a May bulletin, the order cost New Jersey hospitals approximately $650 million per month, or $1.3 billion over the 60 days the ban was in place. At the same time, hospital expenses increased $214 million per month, as hospitals redirected resources to expand capacity, add staff, and increase inventories of pharmaceuticals, ventilators and personal protective equipment to protect staff and patients. This bulletin offers an expanded analysis of the financial condition of the New Jersey hospital industry based on comprehensive survey data through June 2020.

Federal Relief

The federal government provided some much-needed financial assistance to hospitals and other providers on the frontlines of the coronavirus response. Together, the Paycheck Protection Program; Health Care Enhancement Act and the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided $175 billion in relief funds to hospitals, nursing homes, clinics and other healthcare providers nationwide.

To date, New Jersey has received $3.8 billion in Provider Relief Fund (part of the CARES Act) payments. Although acute care hospitals were key recipients of this funding, these payments were allocated to more than 14,000 healthcare providers throughout the state. As a condition for receiving these CARES Act payments, providers are prohibited from using the funds for anything other than direct COVID-19-related expenses. Any unused or improperly spent funds must be returned to the federal government. Hospitals also must spread these relief funds over the length of the effective period – which remains active and uncertain six months into the emergency response.

Payments received under the Medicare Accelerated and Advance Payment (AAP) Loan Program represent another source of federal assistance to hospitals. Loans under the AAP program are designed to temporarily increase cash flow to Medicare providers impacted by COVID-19. Collectively, New Jersey hospitals, skilled nursing facilities and other Medicare Part A providers (such as home health care and hospice agencies) received approximately $3 billion under the program. These funds must be repaid to the federal government in their entirety – possibly with interest – beginning as early as this month.

The financial data examined for this analysis likely includes some, if not all, CARES Act and Medicare AAP Loan Program funding (if applicable) in the reported revenue totals, although the exact amounts cannot be estimated through the survey data collected. This is an important consideration as these federal relief funds, if included in the survey responses, would serve to increase short-term revenue totals, resulting in more favorable financial margins. Fiscal indicators exclusive of this federal assistance would paint an even more distressing portrait of the financial condition of New Jersey hospitals.

While federal funds dampened the more acute fiscal impacts of COVID-19, they do not address the lingering losses that persist. A joint study issued in July by the American Hospital Association and Chicago-based healthcare consultants Kaufman, Hall & Associates finds that while median hospital margins in the second quarter of 2020 would have been negative 15 percent without CARES Act funding, those margins are still forecast to drop to negative 3 percent in the second quarter, even with that federal funding. Furthermore, without additional government support, margins could sink to negative 7 percent in the second half of 2020, an "unsustainable level for America's hospitals," according to the consultant's analysis.

Financial and Utilization Indicators

To understand the current status of the New Jersey hospital industry, CHART examined financial and utilization survey data covering the period Jan. 1 through June 30, 2020, compared to data from the same six-month period in 2019.

Financial Performance

A hospital or health system's operating margin is one of the most common indicators of profitability and is based on income derived from patient care operations. Last year, for the year-to-date (YTD) period ending June 30, 2019, the statewide average hospital operating margin was 3.7 percent, with 32 percent of hospitals ending the period with a negative margin, or "in the red." There was little change in the aggregate operating margin over the remainder of 2019, and the statewide average margin for year-end 2019 was also 3.7 percent.

At the close of the first quarter of 2020 on March 31, the industry's response to the COVID-19 pandemic was underway and the data began to reflect the financial strain. The YTD March 31, 2020, average operating margin fell below zero, to negative 2.9 percent statewide. This decline was driven primarily by reductions in volumes across all settings (inpatient, outpatient and emergency department) and corresponding declines in patient revenues, as individuals began postponing non-emergency visits to the hospitals. Initially these were voluntary decisions, but effective March 27 all such "elective" surgeries and procedures were temporarily halted through an executive order from the Governor.

By June 30, the declines in volumes and patient revenues were more pronounced, due in large part to the loss of elective procedures for roughly two of the first six months of the year and a very slow rebound of those procedures. Hospitals in New Jersey posted a statewide average operating margin of negative 4.0 percent for the first half of 2020, or 7.7 percentage points lower than the 3.7 percent margin for the same period in 2019. Closer examinations of both the revenue and expense sides offer insight behind the drivers of the decline in financial performance.

On the revenue front, the most comparable way to view the data is to look at the average amount of net patient service revenue (NPSR) received for services provided across all settings. These "adjusted admissions" are further adjusted for case mix (the average severity of all patients treated at each hospital).

For the pre-COVID period YTD June 30, 2019, the statewide average NPSR per adjusted admission, after adjusting for case mix, was $10,941. One year later, in the middle of what would become the peak of COVID-19 activity in the state, average revenues fell 6.6 percent, to $10,215 per adjusted admission.

The change on the expense side is even greater. The six-month average for total expenses per adjusted admission was $11,345 in 2019 (also adjusted for case mix). By June 30, 2020, statewide expenses rose to $12,706 – a 12 percent increase in just 12 months.

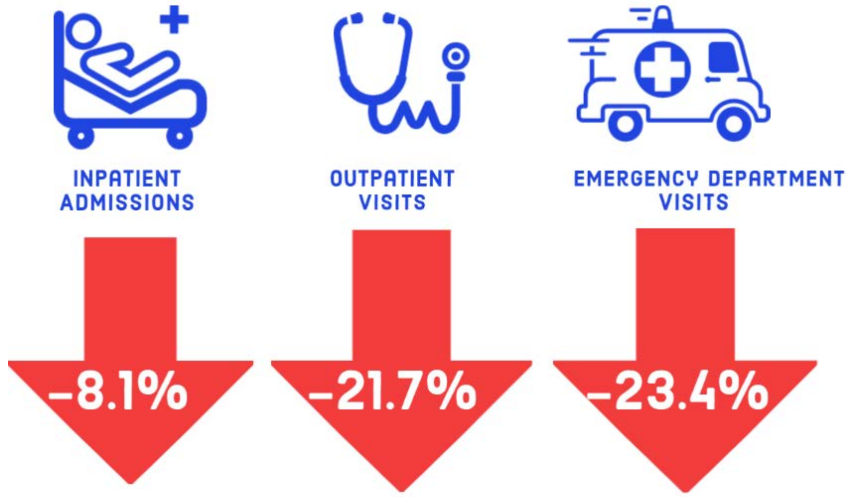
Viewed this way, the 7.7 percentage-point drop in the average hospital operating margin resulted from both declining patient revenues and rising expenses. It is worth noting again that the 2020 revenue figures include at least some of the short-term federal relief money received through the Provider Relief Fund provisions of the CARES Act, as well as loans received through the Medicare Advance Payment program. If such funds were not included in a hospital's survey response (or included only partially, or reported as something other than operating revenue), the 2020 statewide average operating margin would be even lower than negative 4 percent.

Volume Indicators

As noted above, the reductions in patient volumes when compared to pre-COVID-19 levels contributed significantly to the reduced revenue per adjusted admission for the first half of 2020. These reductions occurred in all settings of care, as evidenced by a comparison of total patients in the current period to the same point in time one year earlier.

On the inpatient side, statewide admissions for the period Jan. 1 through June 30, 2020, are 8.1 percent lower than total admissions for the first half of 2019. The decline in outpatient activity over the same six-month period is even greater, with total outpatient visits falling 21.7 percent in 2020 compared to 2019.

Emergency department activity represents the third key volume indicator. The totals reported by hospitals exclude visits that resulted in the patient being admitted (as those are captured in the inpatient totals). Over the same six months, total emergency department visits, net of admissions, are 23.4 percent lower in 2020 than the preceding year – at a time when emergency departments were fully operational and were mobilized to safely receive both COVID-19 and non-COVID cases. This represents the largest percent reduction in patient volume across any setting based on the most recent hospital survey data.



Collectively, the decrease in patient volume through the midpoint of 2020 raises concerns that New Jersey residents may be risking their health and well-being by avoiding trips to their local hospital for needed medical care during the COVID-19 crisis. To further explore the impact of the coronavirus pandemic on hospital utilization – and economic stability by extension – CHART examined patient claims for six common elective procedures performed both during and immediately after the two months the statewide ban on electives was in effect.

COVID-19 and Elective Procedures

Gov. Murphy's Executive Order 109, issued March 23, 2020, called for a suspension of medical and dental "elective" procedures during the COVID-19 response. The order defined an elective procedure as "any surgery or invasive procedure that can be delayed without undue risk to the current or future health of the patient as determined by the patient's treating physician or dentist."

To determine the effects of this ban on elective procedure volumes in the months immediately after the prohibition was rescinded, CHART examined hospital claims data for some of the more common electives performed at New Jersey hospitals. Specifically, aggregate acute care hospital inpatient claims were reviewed on a monthly basis for the two-month period the ban was in place, as well as for the two-month period immediately following. Patient counts for these procedures were compared to those from the same two-month periods in 2019 as benchmarks.[1]

The following procedures were selected, as they were among the most frequently performed inpatient elective procedures at New Jersey hospitals in 2019 – the most recent year for which a full 12 months of claims data is available:

- Sleeve Gastrectomy (Bariatric)
- Pacemaker Insertion
- Spinal Fusion
- Right Knee Replacement
- Left Knee Replacement
- Hernia Repair

Statewide, these six elective procedures were performed a total of 4,336 times in a hospital inpatient setting in April and May of 2019. The prohibition on electives was in effect for the majority of those same two months in 2020, and the data reflects this. Statewide, only 400 of the elective procedures under review were performed in April and May of 2020 – a reduction of nearly 91 percent. It is worth noting that in addition to the ban being lifted before the end of May, the language

[1] Note: The prohibition of elective procedures was in effect from March 27 through May 26, 2020. However, to simplify the discussion about volume trends, CHART considered the months of April and May 2020 in their entirety to represent the two-month period the ban was in effect, even though it began in late March and ended in late May.

of the Executive Order leaves room for these procedures to be performed if delay would result in “undue risk to the current or future health of the patient.”

Monthly volumes throughout 2019 remained fairly constant, and the total number of procedures performed in June and July (4,194) of last year was consistent with the total number for April and May (4,336). In 2020, however, June and July represented the first two full months immediately following the rescinding of the statewide prohibition on electives. Statewide volume for the same six inpatient elective procedures in this two-month period (June and July 2020) was 3,191. While this is up significantly from the April and May total of 400 procedures (when the ban was in place), it is well below the 2019 total for the same period (June and July 2019, 4,194 procedures).

The table below summarizes this information.

Statewide Totals for Six Common Inpatient Elective Procedures Performed at New Jersey Hospitals, 2019 and 2020

		April & May	June & July
2019		4,336	4,194
2020		400	3,191
Variance: 2020 Vs. 2019	#	-3,936	-1,003
	%	*-91%*	*-24%*

While these procedures are among the more common inpatient electives performed at New Jersey hospitals, they constitute a small sampling and the results should be viewed carefully before extrapolating to larger patient populations.

A preliminary look at inpatient claims from August 2020 shows the same trend: volume is up compared to the months the ban was in place, but below 2019 levels. The month of August was excluded for this analysis as the data set used did not yet include all claims, due to the typical lag between the date of service and date of claim submission.

Looking Ahead

Any efforts undertaken on New Jersey’s road to recovery must be done in a manner that preserves public safety and confidence. This applies to the physical and mental health of our residents as well as the economic prosperity of our institutions and industries.

New Jersey’s hospitals and other healthcare facilities are here to care, in all circumstances. The return of consumer confidence will be an essential component of the recovery. Consumer survey data both in New Jersey and nationally show that many consumers express concerns about the possibility of COVID-19 transmission in hospitals and continue to delay the scheduling of elective procedures.

In a potential sign of easing worries, consumer surveys also show strong support for hospitals’ COVID-19 precautions, such as employee testing, facility redesign to promote social distancing and separate COVID-19 units, and deep cleaning and other infection control practices. However, until healthcare consumers fully return to seeking needed healthcare services, the financial health of hospitals will continue to be strained. This is troubling not only for the institutions themselves, but for their communities and the state as a whole. New Jersey hospitals infuse $25 billion annually into the New Jersey economy and employ 154,000 people. The healthcare sector is the second largest source of jobs in our state. The return of financial health to hospitals is essential to the state’s road ahead from COVID-19. Along the way, hospitals will remain committed to their missions and to improving the health of the people of New Jersey.

Visit www.njha.com/chart/ for additional resources.

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