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National Hospital Flash Report

Based on May Data from Over 800 Hospitals

Real Data. Real Insight. Real Time.

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Overview

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Dear Readers,

Hospitals and health systems across this country have been nothing short of heroic in their efforts to battle COVID-19. In addition to the immense clinical challenges, the pandemic has had devastating financial implications, plunging already-thin hospital operating margins to historic lows in March and April. Now, May performance results reflect early indications of a potential recovery.

Aided by a partial reemergence of patient volumes—including a sizable jump in surgery volumes compared to low levels seen in April—and an infusion of federal funding, most hospitals saw significant margin improvements from April to May. More than $50 billion in funding from the CARES Act helped temporarily push the median hospital Operating Margin back out of the red, to 4% in May. Without the funding, it would have been –8% for the month, which still is greatly improved from April and slightly improved from March, suggesting some recovery.

Despite the month-over-month gains, however, hospital margins and volumes remained well below 2019 performance and budget expectations. Even though the year-over-year declines were far less than those seen in April, they convey the continued fragile state of our nation's hospitals.

Current circumstances bring to mind a quote from Winston Churchill. In 1941, in the midst of WWII, he said: *"We shall not fail or falter. We shall not weaken or tire. Neither the sudden shock of battle nor the long-drawn trials of vigilance and exertion will wear us down. Give us the tools, and we will finish the job."*

While the May results offer signs of hope, they also serve as a reminder of the long road ahead. This pandemic is far from over, and the road to recovery likely will not be a consistent upward slope, but rather a series of peaks and valleys.

Different organizations will move at different speeds along divergent paths depending on numerous factors, such as available resources, fluctuations in coronavirus cases, consumer sentiment, and additional aid.

Healthcare leaders nationwide must continue to closely monitor performance data to help gauge the overall health of the industry, and their organizations' role in an evolving environment. They must act quickly to rigorously assess their organizations' positioning and strategic options, and to chart the path forward. Only by acting now do healthcare leaders stand the best chance of giving their organizations the tools needed to finish the job.

Thank you.

Jim Blake
Managing Director and Publisher
Kaufman Hall

See *Kaufman Hall's Coronavirus page for regular updates.*

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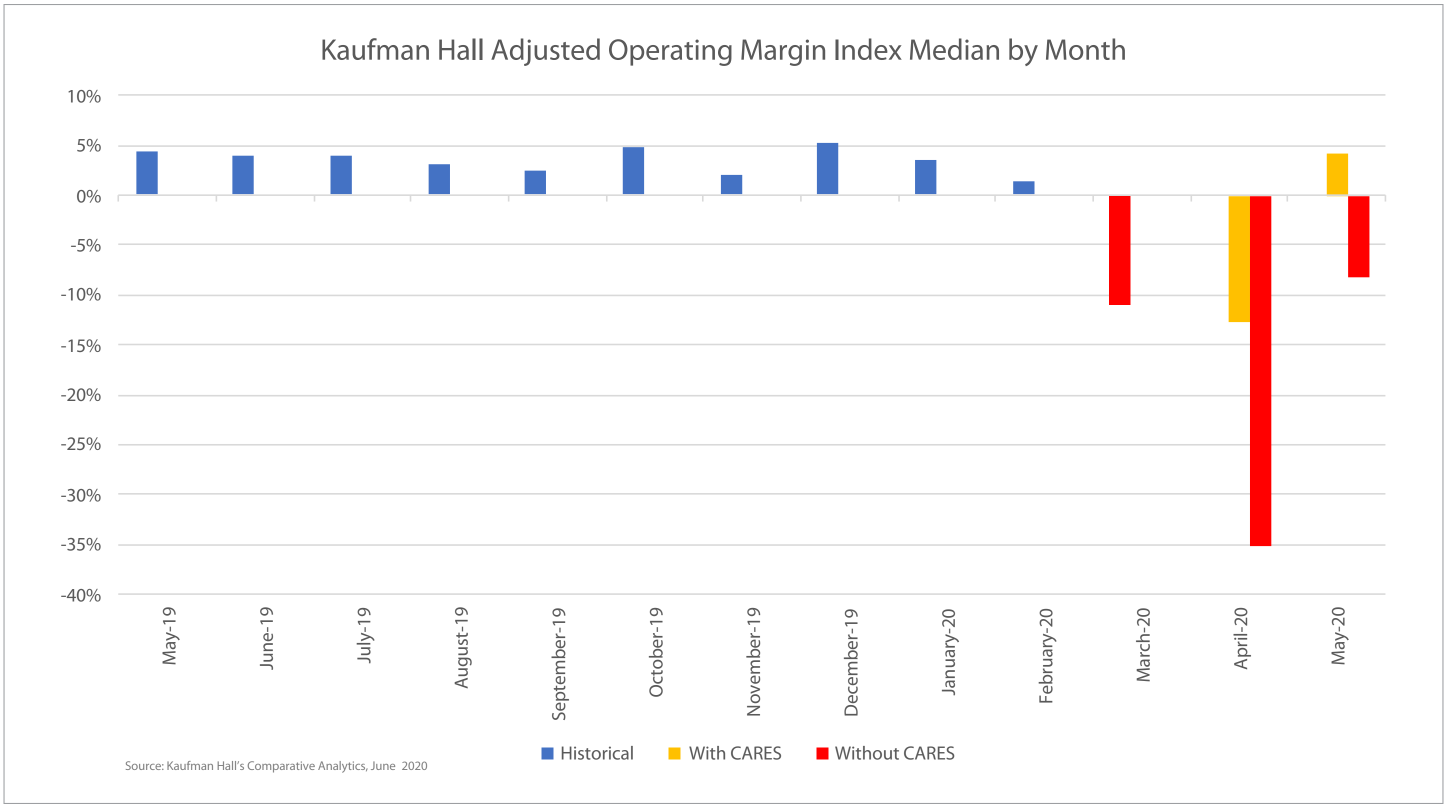
Executive Summary

U.S. hospitals and health systems began to see some signs of improvement in May with the infusion of emergency federal funding from the CARES Act and an uptick in volumes compared to low levels seen in April. Margins improved significantly from April to May for most hospitals, although they still fell well below 2019 levels and below budgets. The results follow two brutal months of poor margin, volume, and revenue performance spurred by the coronavirus pandemic, associated social distancing policies, and consumer caution. While the year-over-year margin results were still down, the declines were much less than those seen the previous two months, when margins plunged deep into the red.

Hospitals nationwide benefitted from more than $50 billion in funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The funding provided temporary relief, helping to propel the median hospital Operating Margin back into positive territory at 4% in May, compared to –8% without the funding (see Figure). The median hospital Operating EBITDA Margin rose to 10% in May with the CARES funding, compared to –2% without the funding. It should be noted, however, that the vast majority of hospitals that received CARES funding recorded the entire amount across April and May—reflecting the short-term nature of the relief, unless Congress issues additional funding.



** Note: The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of our dataset adjusted for allocations from corporate, physician, and other entities to the hospitals.*

Executive Summary *(continued)*

Overall, Operating Margin rose 100%, or 1,892 basis points (bps) month-over-month with the CARES funding, but fell 13% (133 bps) year-over-year and 6% (55 bps) below budget. Operating EBITDA Margin rose 105% or 1,725 bps from April to May, but fell 9% or 143 bps year-over-year and 6% or 93 bps below budget. The results follow record-low performance in April, when Operating Margin plunged 282% or 3,025 bps year-over-year and Operating EBITDA Margin fell 174% or 2,791 bps.

Volumes also increased month-over-month in May, but decreased year-over-year and to budget across most measures. Adjusted Discharges were up 30% month-over-month, but down 27% year-over-year and 26% below budget, while Adjusted Patient Days rose 28% month-over-month and were down 23% both year-over-year and to budget. Operating Room Minutes saw the biggest increase of any volume metric, jumping 92% from low levels the prior month, as hospitals nationwide resumed non-urgent procedures. Even so, Operating Room Minutes remained down 29% compared to the same period last year (which is a better indicator of performance) and 32% below budget. Emergency Department (ED) Visits increased 22% month-over-month, but remained 33% below both 2019 levels and budget.

May revenue results (excluding the CARES impact) were poor, but demonstrated some recovery, with actual revenues lower year-over-year but up compared to April. Total Gross Revenue was down 14% compared to May 2019, but up 29% month-over-month. Outpatient Revenue was down 27% year-over-year, but saw the largest month-over-month increase at 39%. Inpatient Revenue fell 12% year-over-year and rose 19% month-over-month.

Hospitals also drove expense reductions year-over-year in May by controlling variable costs, with many instituting furloughs and other aggressive cost control actions. Total Expense decreased 6% year-over-year, but was up about 1% month-over-month. Total Labor Expense fell 3% year-over-year and rose 2% month-over-month, while Total Non-Labor Expense fell 7% year-over-year and rose less than 1% month-over-month.

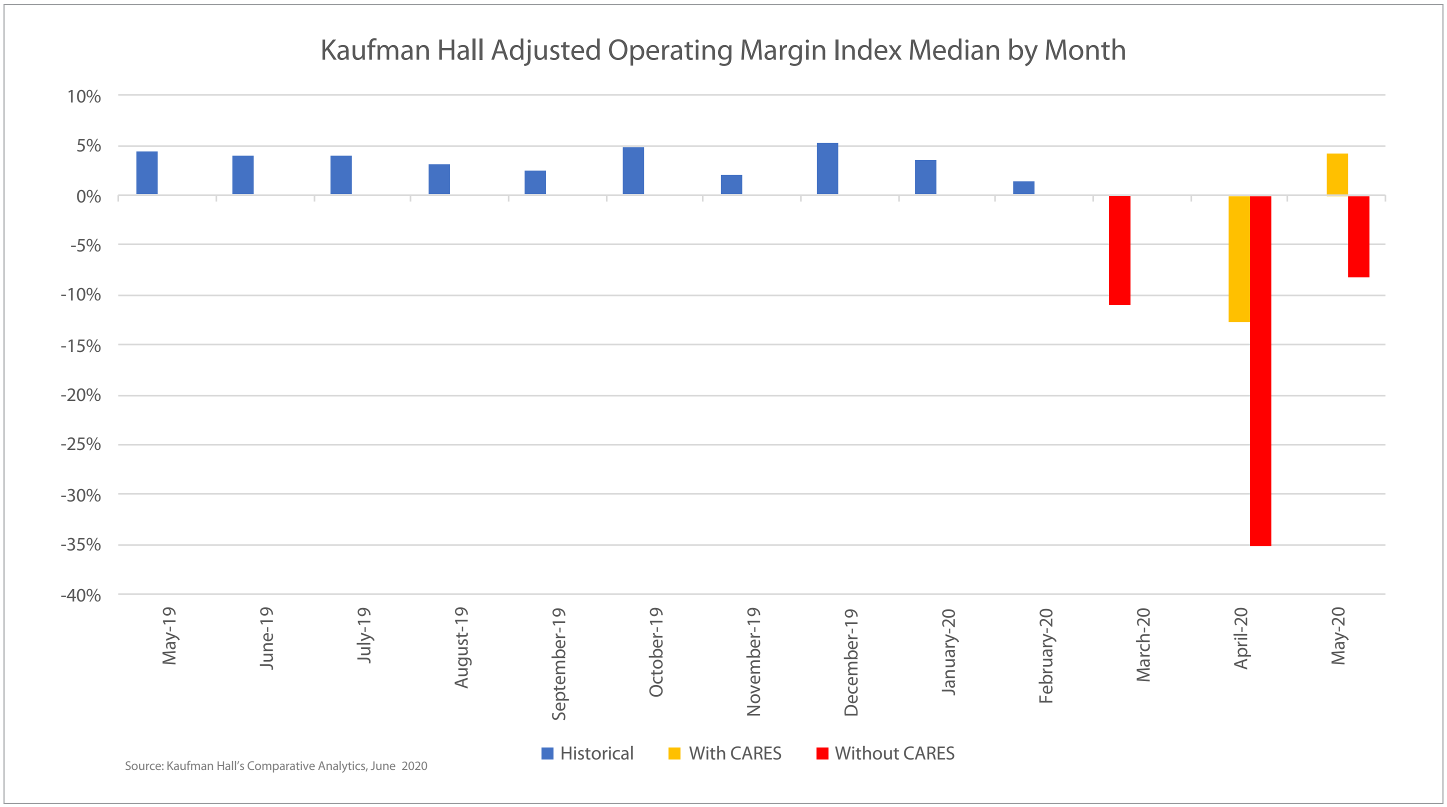
Looking beyond healthcare at non-operating performance, the equity markets saw across-the-board gains in May, reaching a peak on June 8 with the release of the May jobs report. The report reflected the addition of a record 2.5 million jobs—an unexpected comeback from April's loss of almost 21 million jobs, although data collections errors may have affected the true figure. May also saw nearly $2.5 billion of municipal fund inflows, reversing two months of outflows. The Institute for Supply Management (ISM) Purchasing Manager Indexes soured to 43.1% in May, reflecting a third consecutive month of sharp contraction in the manufacturing and service sectors.

Margin

National Margin Observations

Hospitals and health systems across the country saw some improvements in margin performance in May, following two months of grim performance sparked by the impacts of the COVID-19 pandemic. Most hospitals saw margin increases month-over-month. While year-over-year results were still down, the declines were much less than those seen in March and April, when steep volume and revenue declines drove margins deep into the red.

More than $50 billion in funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided some temporary relief, propelling the median hospital Operating Margin back into positive territory at 4% in May, compared to –8% without the funding. Similarly, the median hospital Operating Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) Margin rose to 10% in May with the CARES funding, compared to –2% without the funding. The vast majority of hospitals that received CARES funding recorded the entire amount across April and May, however, meaning the relief is only short-term unless Congress issues further funding.



** Note: The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of our dataset adjusted for allocations from corporate, physician, and other entities to the hospitals.*

Margin *(continued)*

National Margin Observations *(continued)*

Inclusive of the CARES funding, Operating Margin rose 100% or 1,892 bps from April to May, but fell 13% or 133 bps year-over-year and was 6% below budget. The results follow record-low performance in April, when Operating Margin plummeted 120% or 1,344 bps month-over-month and 282% or 3,025 bps year-over-year.

Operating EBITDA Margin rose 105% or 1,725 bps from April to May, but fell 9% or 143 bps year-over-year and 6% below budget. By comparison, Operating EBITDA Margin fell 118% or 1,152 bps month-over-month and 174% or 2,791 bps year-over-year just one month earlier.

The May results came as hospitals saw volumes increase month-over-month, but continue to fall year-over-year and compared to budget. Operating Room Minutes saw the greatest month-over-month increase, jumping 92% compared to the low levels seen in April, as hospitals nationwide resumed non-urgent procedures. Revenue results for the month were poor but improving, with revenues below 2019 levels, but greater than last month. Expenses declined in May relative to the same period last year due to significant actions taken by many organizations to control costs.

Margin % Change

	Budget Variance	Month-Over-Month	Year-Over-Year
Operating EBITDA Margin	-5.7%	104.9%	-8.8%
Operating Margin	-5.6%	100.4%	-12.5%

Unless noted, figures are actuals and medians expressed as percentage change

Margin Absolute Change

	Budget Variance	Month-Over-Month	Year-Over-Year
Operating EBITDA Margin	(92.7)	1,725.3	(142.9)
Operating Margin	(54.6)	1,891.6	(132.6)

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

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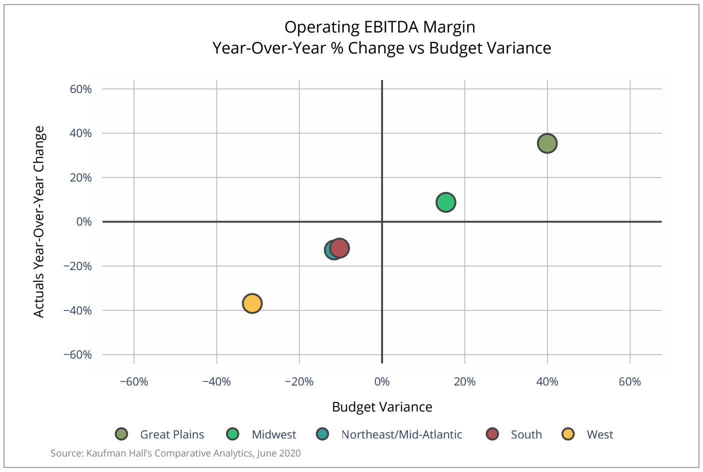
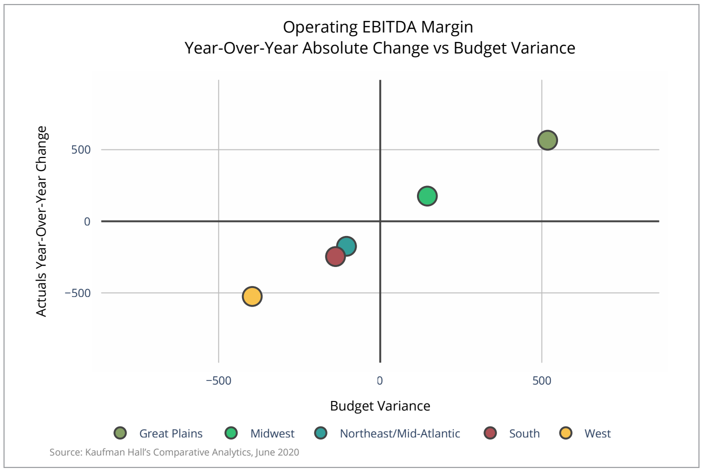
Margin *(continued)*

EBITDA Margin by Region

Looking at hospitals by region, hospitals in the West, Northeast/Mid-Atlantic, and South continued to see Operating EBITDA Margin decline year-over-year and compared to budget. The West saw the most significant declines, falling 37% year-over-year and 31% below budget due to continued volume declines and higher-than-expected expenses.

Hospitals in the Midwest and Great Plains saw Operating EBITDA Margin increase both year-over-year and compared to budget. The Great Plains had the biggest increases, jumping 37% compared to May 2019 and 40% above budget, as the region saw revenues increase year-over-year despite continued volume declines and higher-than-expected expenses.





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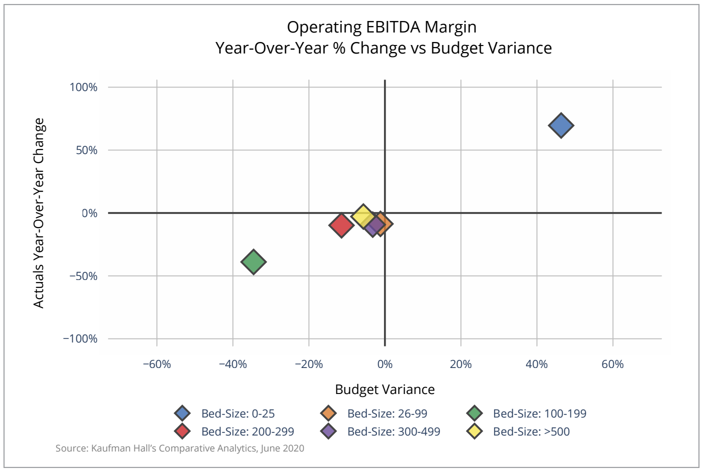
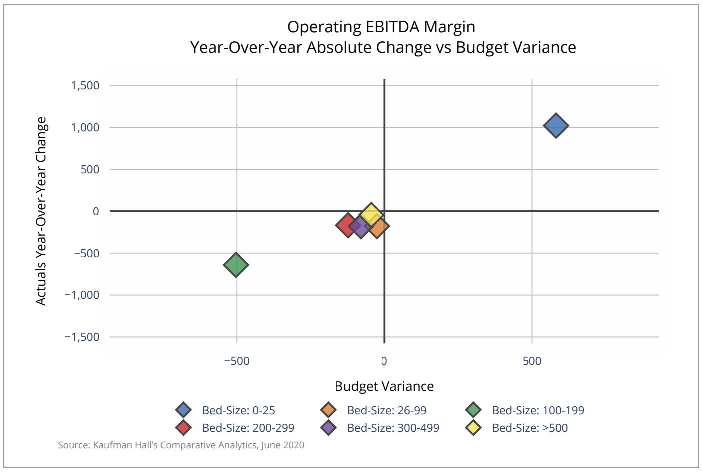
Margin *(continued)*

EBITDA Margin by Bed Size

Operating EBITDA Margins fell year-over-year and compared to budget for hospitals in five of six bed-size cohorts, ranging from 26 to 500 beds or more. Hospitals with 100-199 beds had the greatest decreases, down 39% year-over-year and 35% below budget, due in part to low volumes and high labor and non-labor expenses. The other four cohorts clustered between margin declines of 3% and 10% year-over-year.

The smallest hospitals were the exception, as the only cohort to see margin increases in May due to rising revenues—primarily driven by CARES funding—and low bad debt and charity care. Operating EBITDA Margin jumped 70% year-over-year and 46% above budget for hospitals with 0-25 beds.





Volume

National Volume Observations

Volumes % Change

	Budget Variance	Month-Over-Month	Year-Over-Year
Discharges	-20.4%	17.6%	-19.2%
Adjusted Discharges	-26.1%	30.0%	-27.4%
Adjusted Patient Days	-22.9%	27.6%	-23.2%
Average Length of Stay	3.1%	-0.1%	3.3%
ED Visits	-33.4%	22.3%	-33.3%
Operating Room Minutes	-31.8%	91.6%	-29.3%

Volumes saw a similar pattern, with decreases year-over-year and to budget across most measures, but increases month-over-month as hospitals slowly began to see volumes recover. Discharges rose 18% month-over-month, but fell 19% year-over-year and 20% below budget.

Adjusted Discharges were up 30% month-over-month, but down 27% year-over-year and 26% below budget, while Adjusted Patient Days rose 28% month-over-month, and were down 23% both year-over-year and to budget.

Operating Room Minutes saw the biggest increase of any volume metric, jumping 92% compared to prior month due to some recovery from the devastatingly low April volumes. However, Operating Room Minutes were down 29% compared to the same period last year and 32% below budget. Emergency Department (ED) Visits increased 22% compared to April, but fell 33% both year-over-year and compared to budget.

Average Length of Stay (LOS) remained relatively steady. This metric was essentially flat month-over-month, and up just 3% year-over-year and compared to budget.

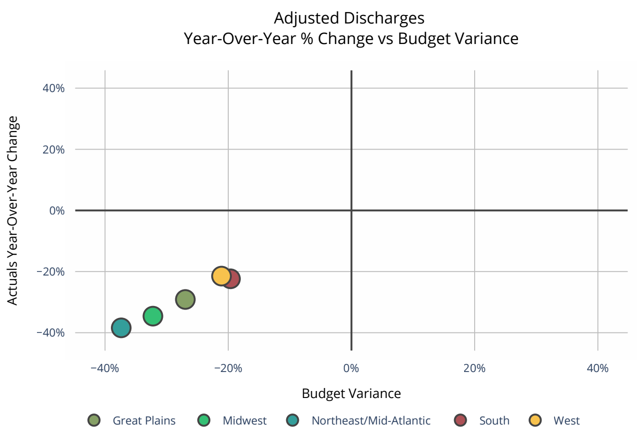
Volume *(continued)*

Volume by Region

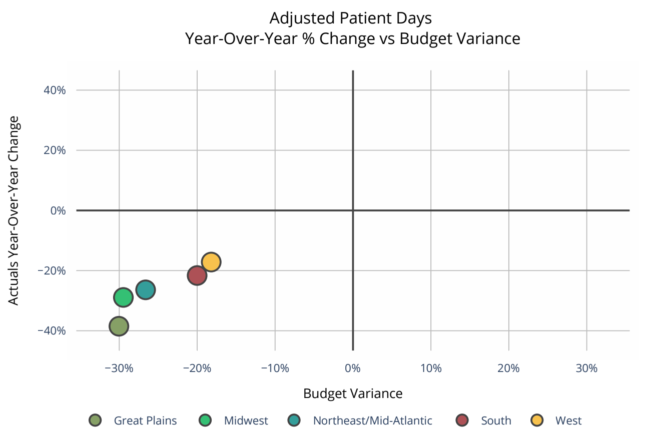
For the third consecutive month, hospitals across all regions saw volumes fall year-over-year and compared to budget for five of six metrics: Discharges, Adjusted Discharges, Adjusted Patient Days, ED Visits, and Operating Room Minutes.

The Northeast/Mid-Atlantic saw the greatest decreases across Discharges, Adjusted Discharges, ED Visits, and Operating Room Minutes. The region saw Adjusted Discharges decrease 38% year-over-year and fall 37% below budget, ED Visits fall about 39% both year-over-year and compared to budget, and Operating Room Minutes drop 60% year-over-year and 58% below budget.

The West saw the smallest decreases for adjusted volume metrics, falling 21% both year-over-year and compared to budget for Adjusted Discharges, and down 17% year-over-year and 18% below budget for Adjusted Patient Days.



Source: Kaufman Hall's Comparative Analytics, June 2020



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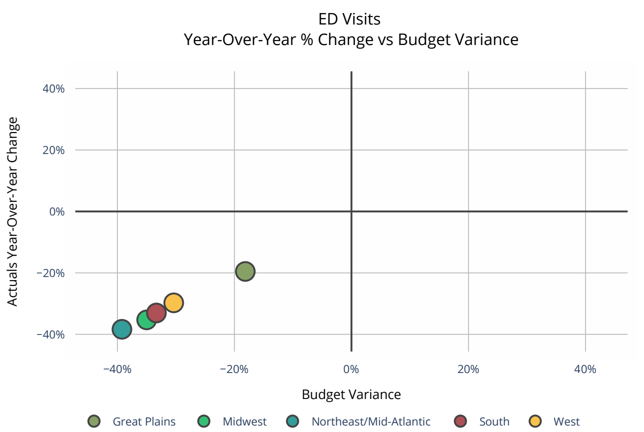

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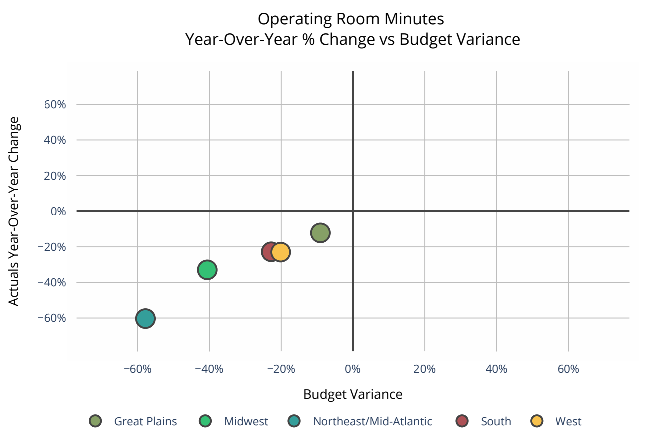


Source: Kaufman Hall's Comparative Analytics, June 2020

Volume *(continued)*

Volume by Region *(continued)*

The Great Plains, however, had the smallest decreases for both ED Visits and Operating Room Minutes. The region saw ED Visits decline 20% year-over-year and fall 18% below budget, while Operating Room Minutes were down just 12% year-over-year and 9% below budget.

For Average LOS, hospitals in the Great Plains were down year-over-year but above budget, while the Midwest was up year-over-year but below budget. All other regions saw increases both year-over-year and compared to budget. The Northeast/Mid-Atlantic saw the greatest increases, jumping 21% year-over-year and 18% above budget.

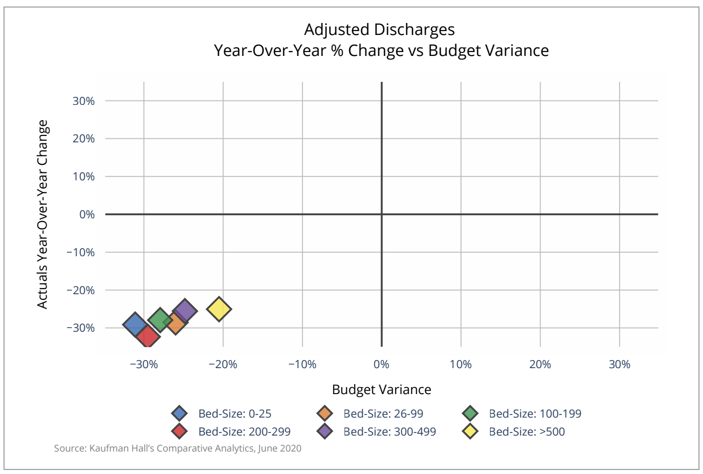
Volume *(continued)*

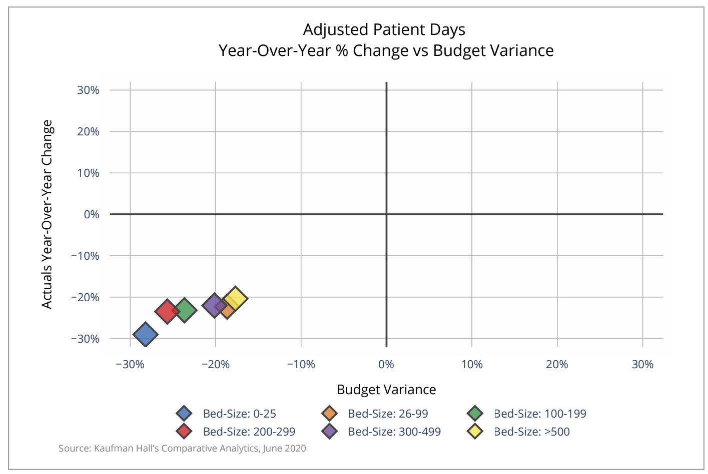
Volume by Bed Size

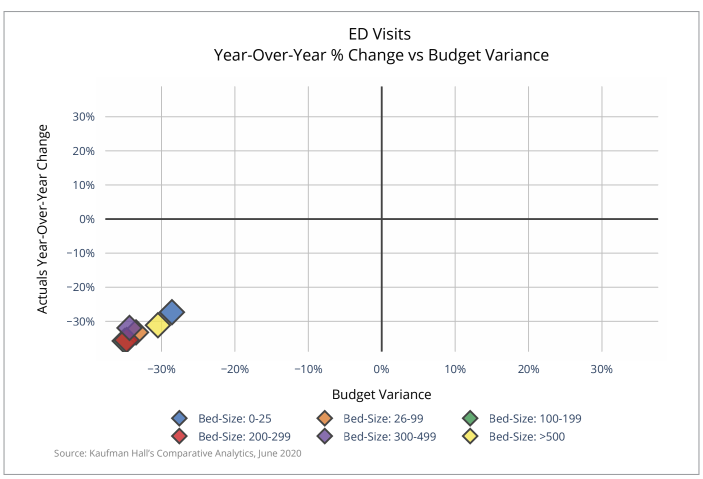
Also for the third consecutive month, hospitals across all bed-size cohorts experienced declines both year-over-year and to budget for Discharges, Adjusted Discharges, Adjusted Patient Days, ED Visits, and Operating Room Minutes.

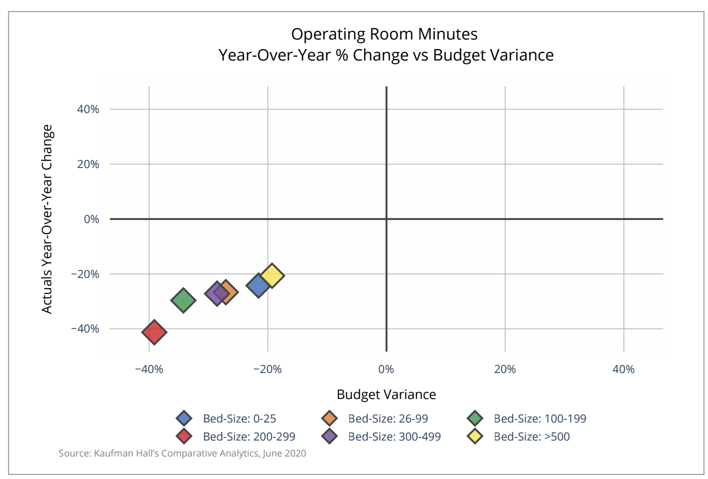
The nation's smallest hospitals with 0-25 beds saw the greatest decreases for Discharges and Adjusted Patient Days. The cohort was down 25% year-over-year and 32% below budget for Discharges, and fell about 29% both year-over-year and to budget for Adjusted Patient Days.

Hospitals with 0-25 beds also had the greatest decrease to budget for Adjusted Discharges at 31% below budget, but hospitals with 200-299 beds saw the greatest year-over-year decrease for this metric, down 32%. Hospitals with 200-299 beds also saw the









Volume *(continued)*

Volume by Bed Size *(continued)*

greatest declines both year-over-year and compared to budget for ED Visits (down 35% for both measures) and Operating Room Minutes (down 41% year-over-year and 39% below budget).

Five of six bed-size cohorts saw increases both year-over-year and to budget for Average LOS. Larger 300-499 bed hospitals saw the biggest year-over-year increase of 6%, while smaller hospitals with 26-99 beds saw the biggest increase to budget of 10%. Hospitals with 0-25 beds were an outlier for this metric, with Average LOS falling 4% year-over-year, but 7% above budget for the month.

Revenue

National Revenue Observations

Revenue % Change

	Budget Variance	Month-Over-Month	Year-Over-Year
Total Gross Revenue	-16.3%	29.3%	-14.0%
IP Revenue	-16.6%	18.9%	-11.9%
OP Revenue	-28.1%	39.2%	-27.0%
Bad Debt And Charity	-20.9%	29.0%	-13.2%
NPSR per Adjusted Discharge	5.2%	-0.1%	9.6%
NPSR per Adjusted Patient Day	0.4%	-1.1%	4.5%
IP/OP Adjustment Factor	-7.5%	8.3%	-9.1%
Bad Debt And Charity as a % of Gross	-5.5%	-0.8%	2.4%

Most revenue metrics continued to fall below budget and below prior year performance for hospitals nationwide, but increased month-over-month. Total Gross Revenue was up 29% compared to April, but down 14% compared to May 2019 and 16% below budget.

Outpatient Revenue saw the largest increase, up 39% month-over-month, but down 27% year-over-year and 28% below budget. Inpatient Revenue rose 19% month-over-month, but fell 12% year-over-year and 17% below budget.

The Inpatient/Outpatient (IP/OP) Adjustment Factor decreased 9% compared to the same period last year and fell 8% below budget, but rose 8% compared to April, as outpatient volumes slowly began to recover. Bad Debt and Charity as a Percent of Gross rose just 2% year-over-year, but fell 1% month-over-month and 6% below budget expectations.

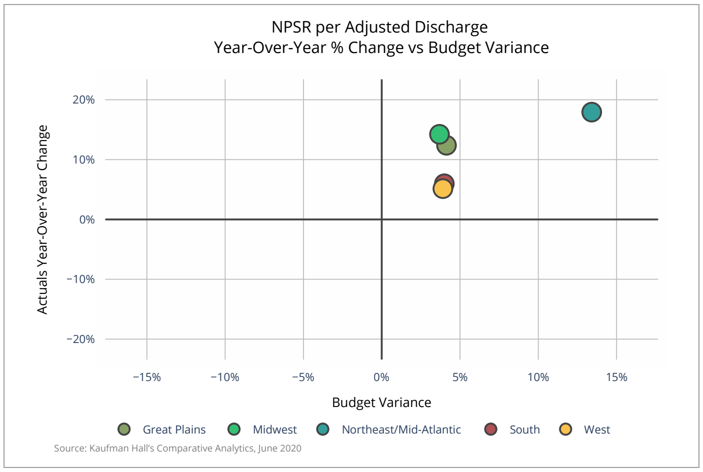
Revenue *(continued)*

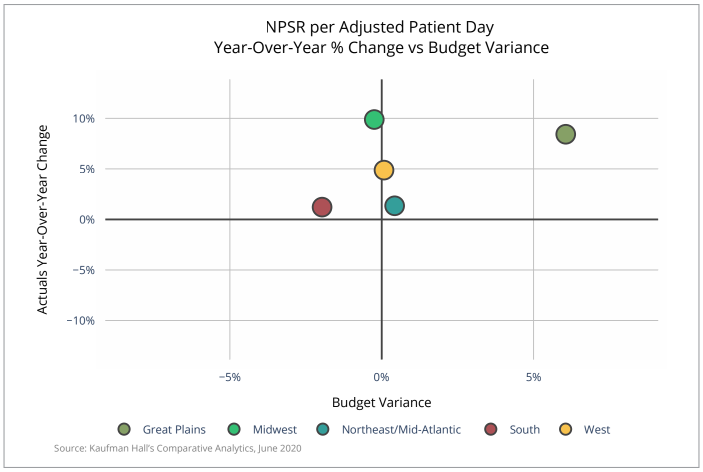
Revenue by Region

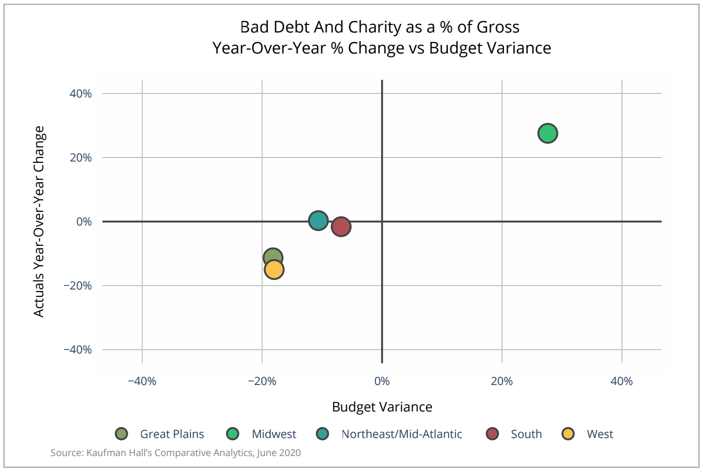
Net Patient Service Revenue (NPSR) per Adjusted Discharge was up year-over-year and to budget across all regions for the month. Hospitals in the Northeast/Mid-Atlantic saw the biggest increases, up 18% year-over-year and 13% above budget for this metric due to the large volume losses experienced.

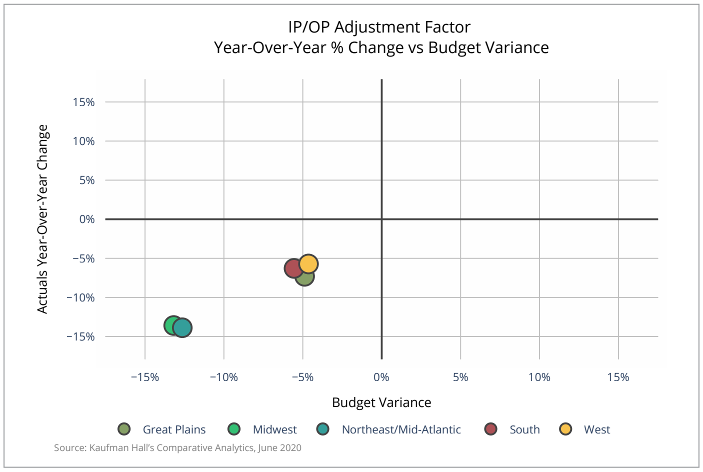
All regions also were up year-over-year for NPSR per Adjusted Patient Day, but two regions fell below budget while three regions were at or above budget. Hospitals in the Midwest had the greatest year-over-year increase of 10%, while those in the Great Plains had the biggest increase to budget at 6%.

Bad Debt and Charity as a Percent of Gross was down year-over-year and compared to budget in the West, Great Plains, and South. The Northeast/Mid-Atlantic was essentially flat for this metric year-over-year, but fell 11% below budget, while the Midwest jumped 28% both year-over-year and to budget.









Revenue *(continued)*

Revenue by Region *(continued)*

All regions saw declines year-over-year and compared to budget for the IP/OP Adjustment Factor. The Northeast/Mid-Atlantic and Midwest saw the greatest decreases, with both regions down about 14% year-over-year and 13% below budget.

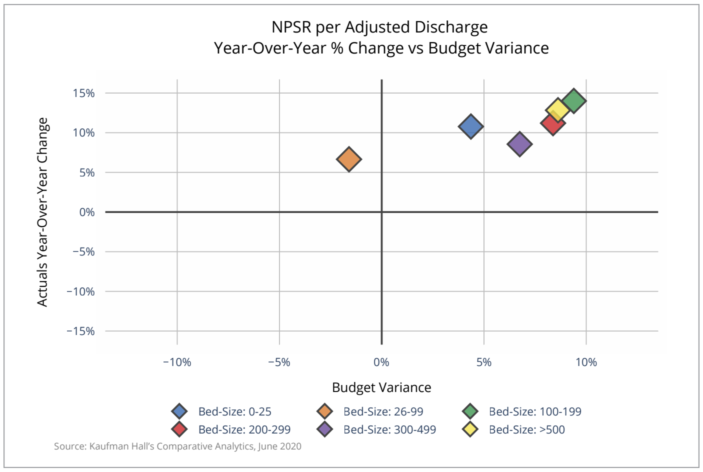
Revenue *(continued)*

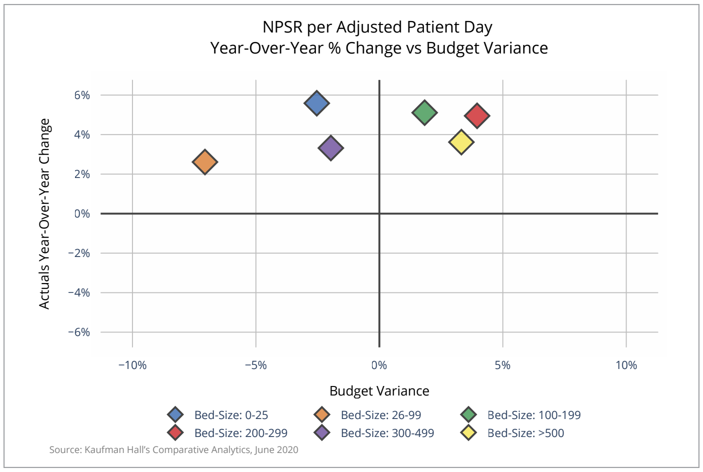
Revenue by Bed Size

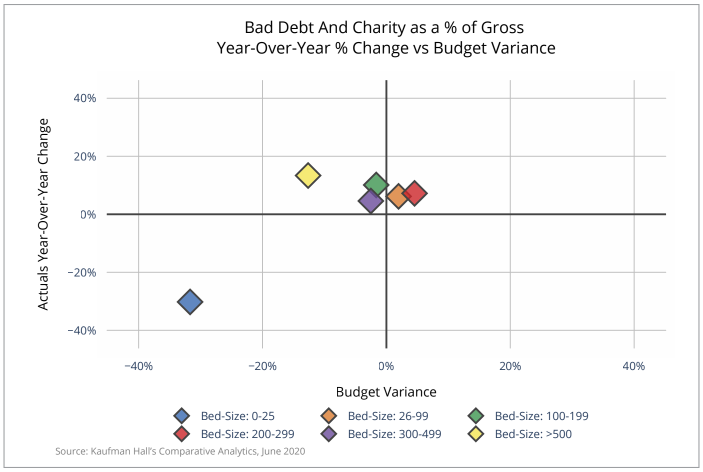
Looking at hospitals by size, five of six bed-size cohorts were up year-over-year and compared to budget for NPSR per Adjusted Discharge. Hospitals with 100-199 beds saw the biggest increases, up 14% year-over-year and 9% above budget. Smaller hospitals with 26-99 beds were an outlier, with NPSR per Adjusted Discharge up 7% year-over-year but falling 2% below budget.

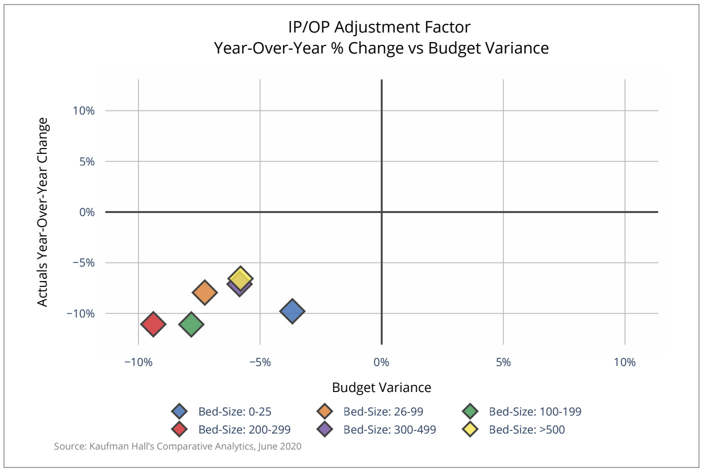
NPSR per Adjusted Patient Day was up year-over-year across all six bed-size cohorts, but was below budget for three cohorts and above budget for the other three. The smallest hospitals of 0-25 beds had the biggest year-over-year increase of 6%, but was 3% below budget. Hospitals with 26-99 beds had the greatest variance to budget, falling 7% below budget, but up 3% year-over-year.

The IP/OP Adjustment Factor fell year-over-year and compared to budget across all bed-size cohorts. Hospitals with 100-199 and 200-299 beds saw the









Revenue *(continued)*

Revenue by Bed Size *(continued)*

greatest year-over-year decreases of 11%. Hospitals with 200-299 beds also saw the greatest budget variance, at 9% below budget.

Bad Debt and Charity as a Percent of Gross rose year-over-year in five of six bed-size cohorts. The largest hospitals with 500 beds or more saw the greatest year-over-year increase at 13%, but also fell 13% below budget. Hospitals with 0-25 beds were the only cohort to see a year-over-year decrease at 30%, and fell 32% below budget.

Expense

National Expense Observations

Expenses % Change

	Budget Variance	Month-Over-Month	Year-Over-Year
Total Expense	-7.8%	0.8%	-6.2%
Total Labor Expense	-6.5%	2.0%	-3.3%
Total Non-Labor Expense	-9.1%	0.5%	-7.3%
Supply Expense	-23.5%	5.0%	-22.7%
Drugs Expense	-24.2%	-12.4%	-21.1%
Purchased Service Expense	-5.9%	-5.4%	-6.3%
Total Expense per Adjusted Discharge	26.8%	-19.3%	31.4%
Labor Expense per Adjusted Discharge	28.9%	-18.5%	33.4%
FTEs per AOB	14.8%	-18.5%	17.4%
Non-Labor Exp per Adjusted Discharge	25.2%	-20.1%	29.6%
Supply Expense per Adjusted Discharge	2.5%	-14.9%	5.1%
Drug Expense per Adjusted Discharge	4.5%	-28.7%	9.6%
Purchased Service Expense per Adjusted Discharge	31.8%	-24.9%	34.9%

Expenses were mixed in May, with many hospitals driving year-over-year decreases across actual expenses with the implementation of furloughs and other aggressive cost control actions. Volume-adjusted expenses increased, however, as organizations continued to struggle to match the pace of lost volumes.

Total Expense was up slightly, about 1% month-over-month, but decreased 6% year-over-year and fell 8% below budget. Total Labor Expense rose 2% compared to April but fell 3% compared to May 2019, and was 7% below budget, while Total Non-Labor Expense rose less than 1% month-over-month, but fell 7% year-over-year and 9% below budget. Supply Expense saw the biggest year-over-year decrease at 23%, but was up 5% month-over-month and 24% below budget.

Looking at adjusted expenses, Total Expense per Adjusted Discharge increased 31% year-over-year but fell 19% month-over-month, and was 27% above budget. Labor Expense per Adjusted Discharge increased 33% year-over-year and fell 19% month-over-month, while Non-Labor Expense per Adjusted Discharge rose 30% year-over year, but fell 20% month-over-month.

Purchased Service Expense per Adjusted Discharge saw the biggest year-over-year increase at 35% and was 32% above budget expectations, but fell 25% month-over-month.

Expense *(continued)*

Expense by Region

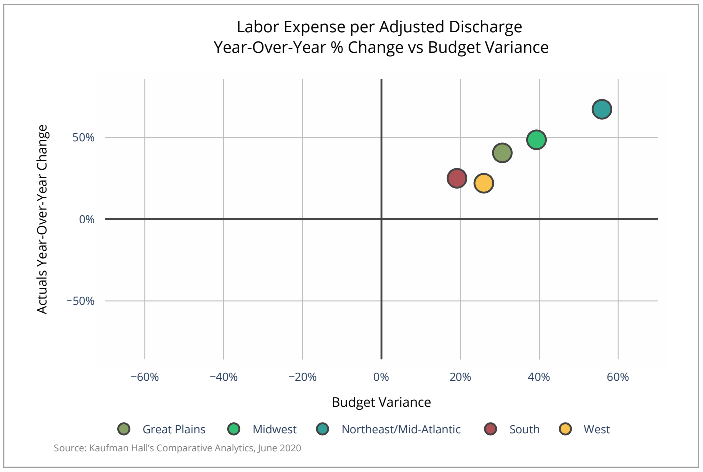
Hospitals across all regions saw increases both year-over-year and to budget for five key metrics: Total Expense per Adjusted Discharge, Labor Expense per Adjusted Discharge, Full-Time Equivalents (FTEs) per Adjusted Occupied Bed (AOB), Non-Labor Expense per Adjusted Discharge, and Purchased Service Expense per Adjusted Discharge.

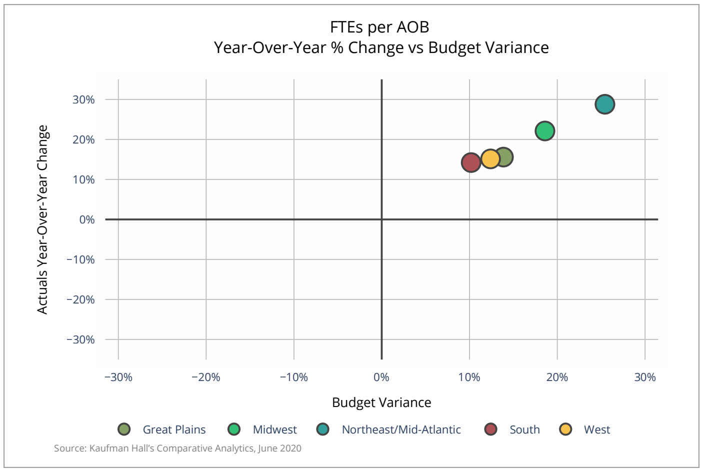
The Northeast/Mid-Atlantic had the largest increases across all expense metrics. For Total Expense per Adjusted Discharge, hospitals in the region were up 66% year-over-year and 51% above budget, while hospitals in the South saw the lowest increases of 21% year-over-year and 19% to budget.

The Northeast/Mid-Atlantic rose 67% year-over-year and 56% above budget for Labor Expense per Adjusted Discharge, while the West was up just 22% year-over-year and 26% above budget. For Non-Labor Expense per Adjusted Discharge, the Northeast/Mid-Atlantic saw increases of 62% year-over-year and 50% to budget, while hospitals in the West had the lowest increases.

Results were more varied for Supply Expense and Drug Expense per Adjusted Discharge. For Supply Expense per Adjusted Discharge, the Northeast/Mid-Atlantic jumped 26% year-over-year and 15% above budget. The Midwest was the only metric to fall below budget for this metric, but was essentially flat year-over-year.

Hospitals in the Northeast/Mid-Atlantic again saw the greatest increases for Drug Expense per Adjusted Discharge, up 39% year-over-year and 36% above budget. The Midwest and Great Plains both were up about 10% year-over-year, but fell in line with budget expectations, while the South was flat year-over-year, but fell 5% below budget.





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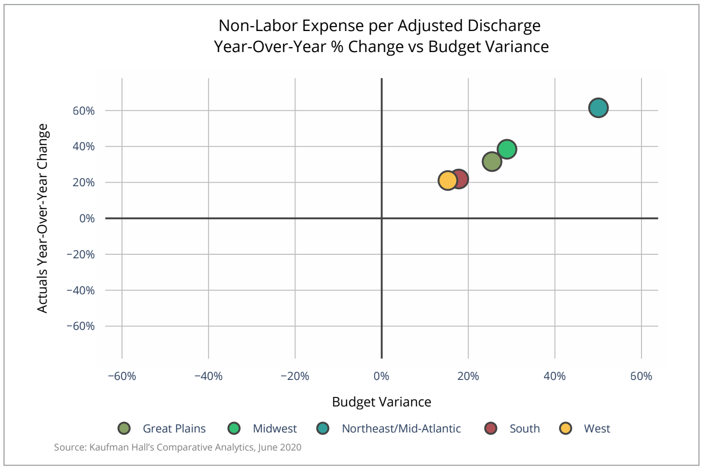
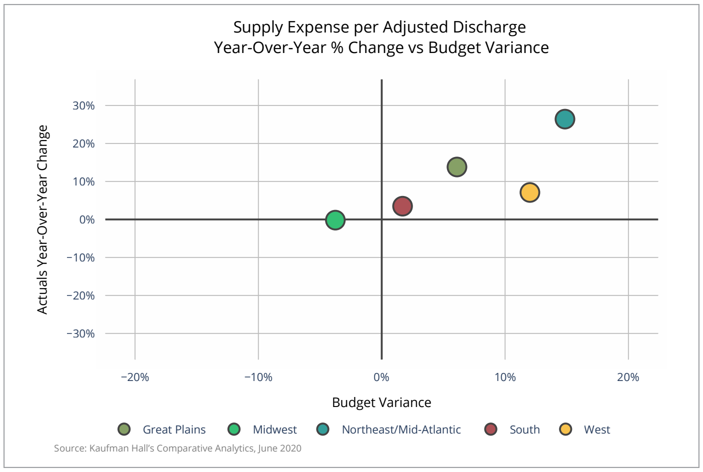
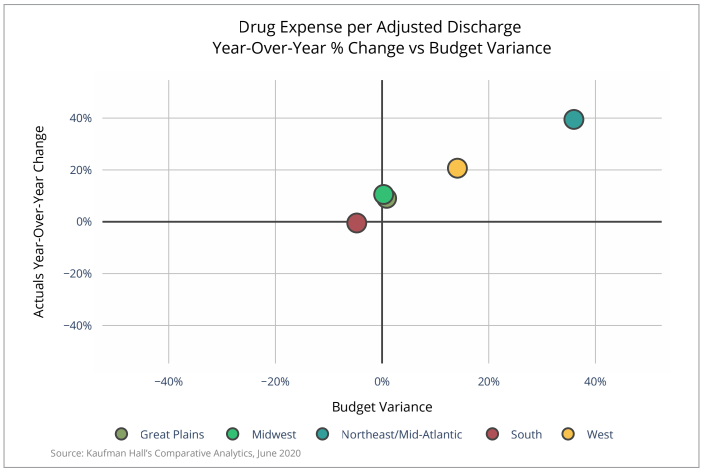
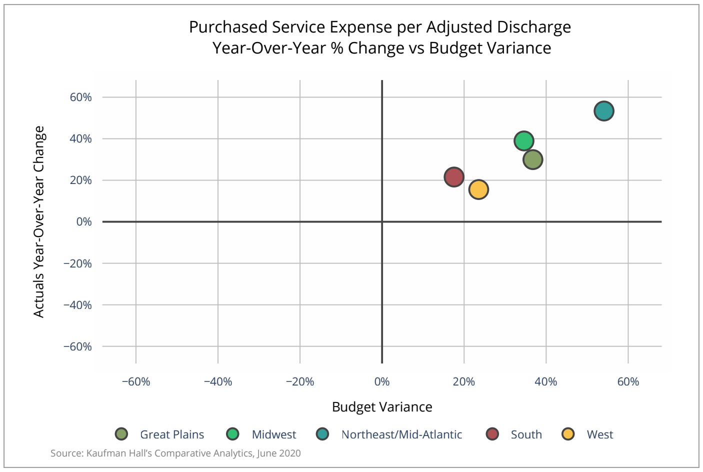
Expense *(continued)*

Expense by Region *(continued)*









Expense *(continued)*

Expense by Bed Size

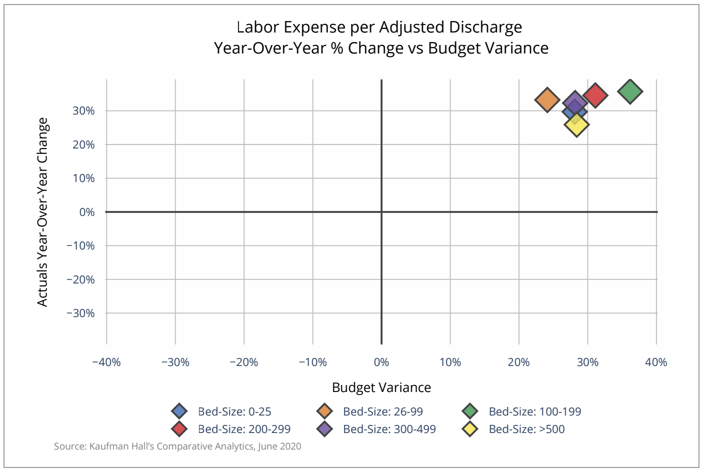
Expenses were up year-over-year and compared to budget for all bed-size cohorts across most measures in May, including Total Expense, Labor Expense, Non-Labor Expense, and Purchased Service Expense per Adjusted Discharge, as well as FTEs per AOB.

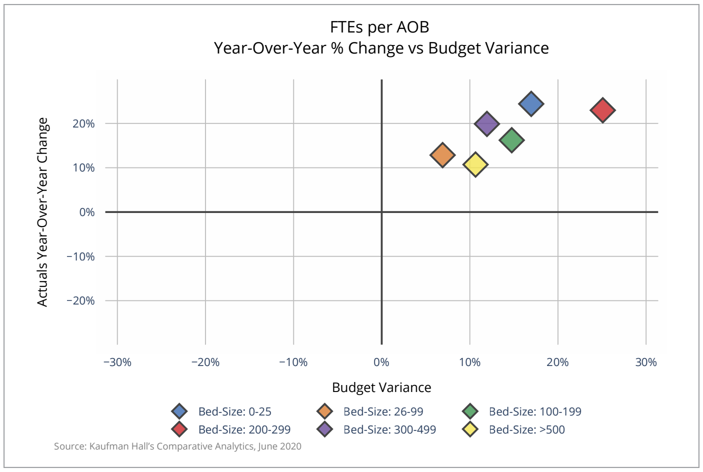
Hospitals with 100-199 beds saw the greatest increases for Total Expense per Adjusted Discharge, jumping 36% both year-over-year and to budget, and for Labor Expense per Adjusted Discharge, where they increased 36% both year-over-year and to budget. The smallest hospitals with 0-25 beds saw the greatest year-over-year increase for FTEs per AOB (up 24%), while hospitals with 200-299 beds saw the greatest increase to budget at 25%.

Mid-sized hospitals with 200-299 beds saw the greatest increases for Non-Labor Expense per Adjusted Discharge, rising 39% compared to May 2019 and 33% above budget expectations. The cohort also had the largest year-over-year increases for both Drug Expense and Purchased Service Expense per Adjusted Discharge at 18% and 51%, respectively.

Results for Supply Expense per Adjusted Discharge varied somewhat, with four of six cohorts seeing increases both year-over-year and to budget. Hospitals with 300-499 beds, however, were up just 1% year-over-year and essentially flat compared to budget, while hospitals with 26-99 beds were up 4% year-over-year, but were the only cohort to fall below budget, down 6%.

For Drug Expense per Adjusted Discharge, four cohorts were up compared to prior year and to budget, while hospitals with 0-25 beds were down for both measures, and hospitals with 26-99 beds were up year-over-year, but below budget.





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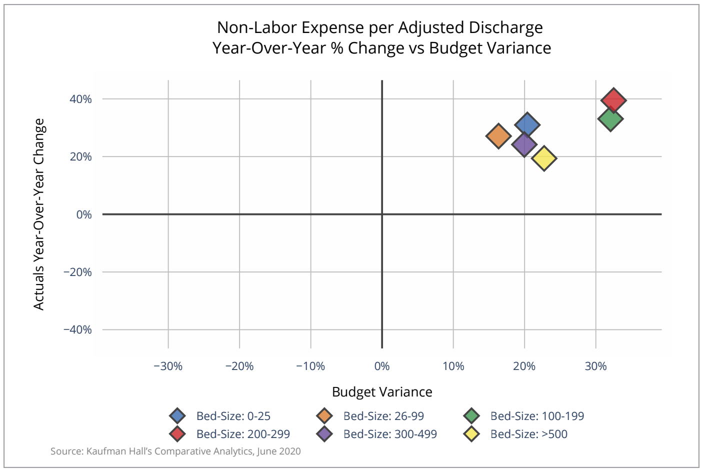
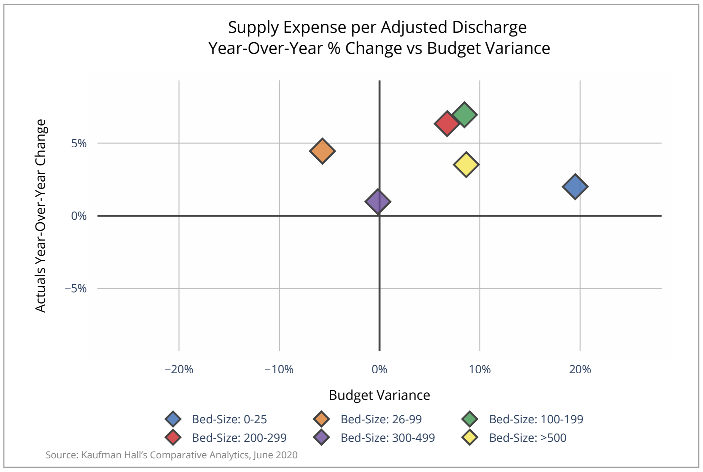
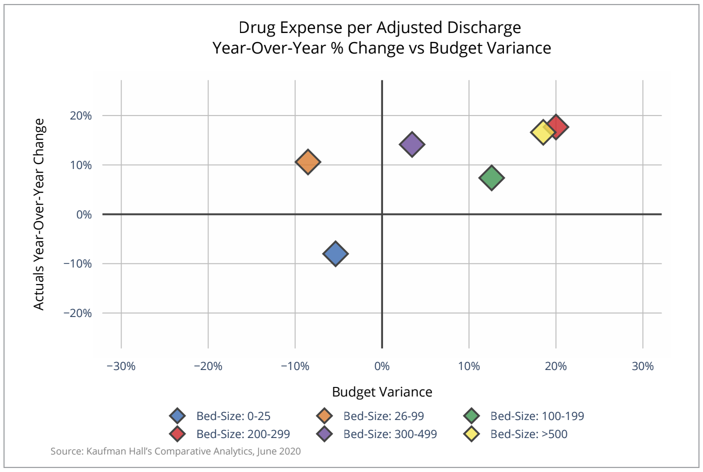
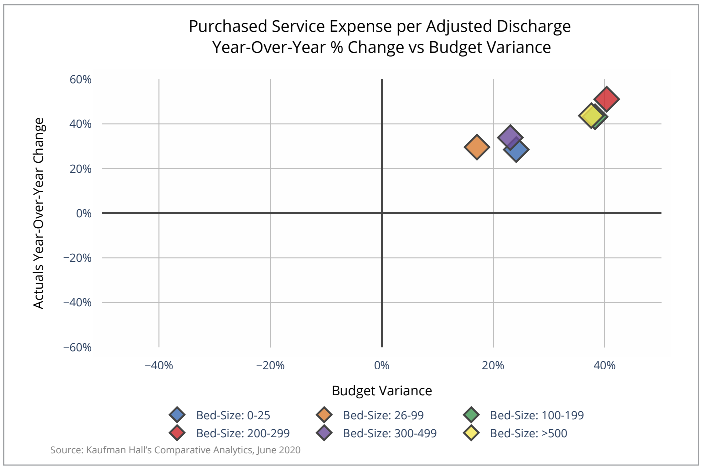
Expense *(continued)*

Expense by Bed Size *(continued)*









Non-Operating

National Non-Operating Observations

May labor data surprised economists by showing signs of recovery compared to April's stark downturn. Contrary to expectations, more than 2.5 million jobs were added in May, the largest monthly gain ever recorded. Hard-hit sectors like hospitality and construction posted the greatest gains. More people were able to return to work as many states loosened COVID-19 restrictions, causing unemployment to drop from 14.7% to 13.3%. Misclassification errors noted in the Bureau of Labor Statistics' June 5 report, however, indicated unemployment could have been as much as 5% higher in April and 3% higher in May, signaling a potentially larger relative recovery in May.

Gross Domestic Product estimates did not improve, with the Bureau of Economic Analysis forecasting 5% contraction in the second quarter. The Conference Board's Consumer Confidence Index also posted a minimal gain from 85.7% to 86.6%, indicating consumers still fear further economic contraction. Despite the massive federal stimulus, personal consumption expenditures remain subdued due to widespread layoffs and reduced spending, due in part to widespread stay-at-home guidance. The price of WTI oil began May below $20 per barrel, but rebounded to $37.12 per barrel as of market close on June 15. Even so, the past three months of low oil prices, coupled with low consumer demand, have helped to keep inflation in check. Equity markets continued a bullish streak, peaking on June 8 due to the release of the May jobs report, re-openings in multiple states, and news of progress toward a COVID-19 vaccine.

	May 2020	M-o-M Change	Y-o-Y Change
General			
GDP Growth†	-5.0%	n/a	n/a
Unemployment Rate	13.3%	-1.4%	+9.7%
Personal Consumption Expenditures, Y-o-Y	1.0%	n/c	-0.4%
Liabilities			
1m LIBOR	0.18%	-15 bps	-225 bps
30yr MMD	1.65%	-63 bps	-67 bps
30yr Treasury	1.41%	+12 bps	-116 bps
Assets			
60/40 Asset Allocation*	n/a	+2.53%	+7.81%

† U.S. Bureau of Economic Analysis, Q1 2020 "Second Estimate"

* 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

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Non-Operating *(continued)*

National Non-Operating Observations *(continued)*

Volatility declined throughout May as investors leveled their expectations of recovery efforts, and took comfort in the Fed's support. Consistent with previous months, the Fed has continued to supply liquidity by conducting massive purchases of Treasury securities, municipal bonds, and mortgage-backed securities. During the June 10 Federal Open Market Committee (FOMC) meeting, the Fed reaffirmed that rates will remain around the 0-0.25% target "until it is confident that the economy has weathered recent events." Data released after the meeting indicate interest rates will stay near 0 through 2022, signaling a longer path to recovery than many had hoped.

Tensions between the U.S. and China flared once again in late May. China claimed that the U.S. is escalating relations toward a "new Cold War" through accusations regarding coronavirus and interference in U.K.-China negotiations regarding establishment of a 5G mobile network.

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Non-Operating *(continued)*

Non-Operating Liabilities

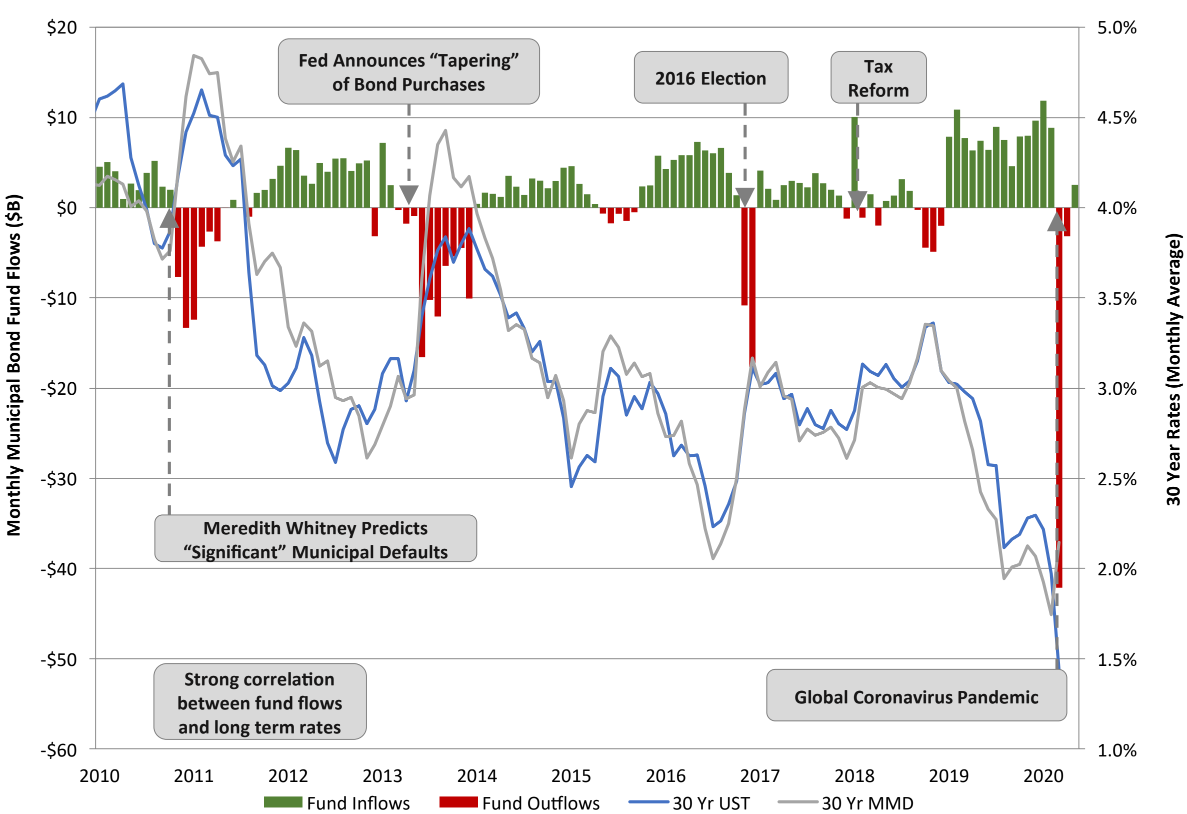
Tax-exempt rates stabilized in May as 30-year MMD dropped 63 bps to end the month at 1.65%. The 30-year Treasury finished May at 1.41%. As a result, the 30-year MMD to Treasury ratio of 117% was down markedly from the high of 251% on March 23, but still elevated from the 88% ratio at the start of 2020.

High-grade hospitals have opted to issue taxable debt in the corporate market, which has become more focused on the highest-rated and largest organizations in not-for-profit healthcare. The municipal market has stabilized and is providing consistent execution. Issuers in the low “A” and “BBB” categories have found willing buyers. Recently, issuers such as Frederick Health and Baptist Health completed financings with healthy demand, in a good sign for the municipal market.

In another good sign for the municipal market, fund flows stabilized in May, as nearly $2.5 billion of inflows reversed the trend of outflows following $45.3 billion

Long Term

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



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

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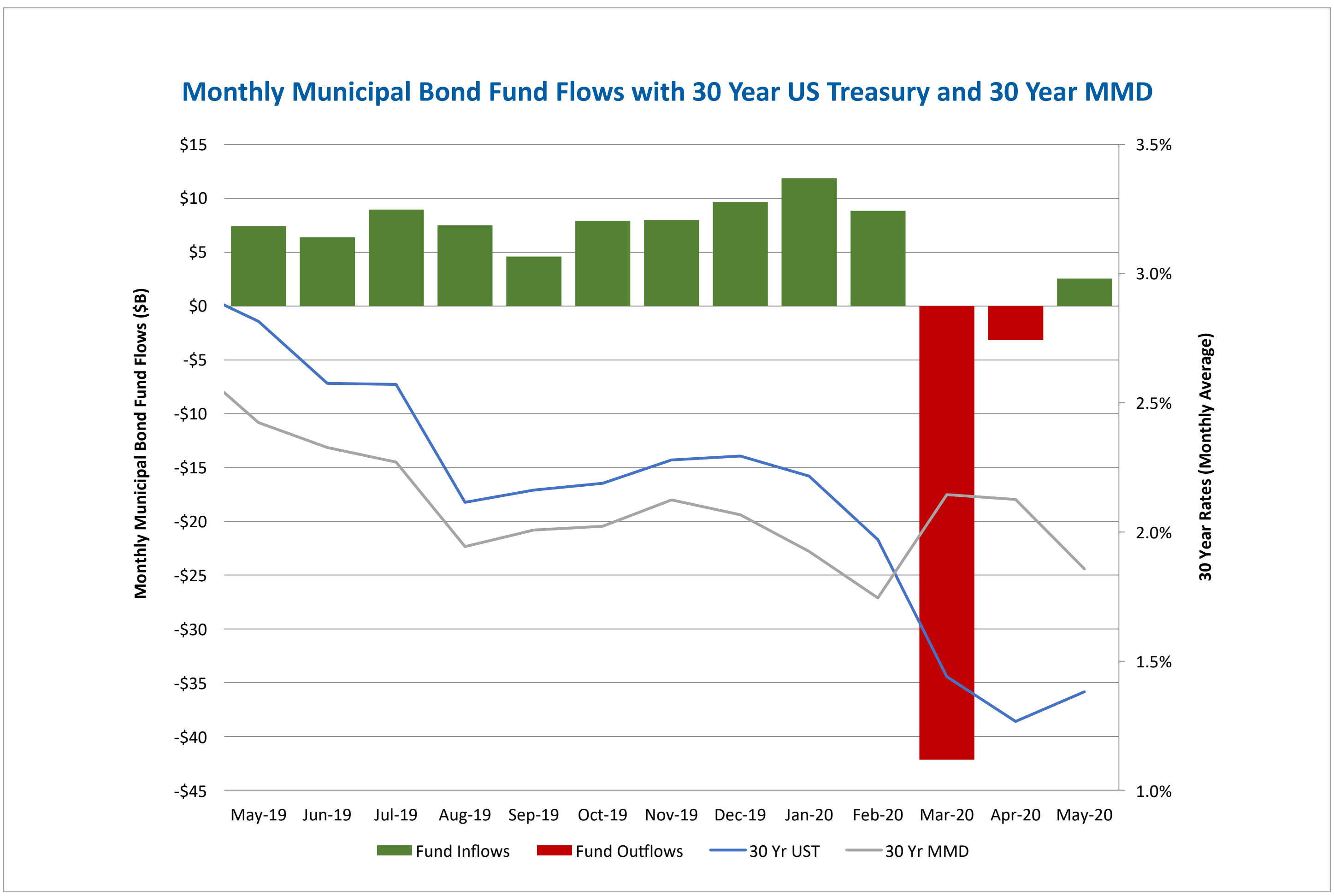
Non-Operating *(continued)*

Non-Operating Liabilities *(continued)*

of redemptions as investors sought liquidity in March and April. In the short-term markets, 1M LIBOR ended May at 0.18%, down 8 bps from April and down 2.25% year-over-year. The tax-exempt short-term rate SIFMA finished May at 0.14%, down an additional 8 bps from April. Short-term rates have continued to drop in June and are poised to remain at historically low levels for the immediate future.

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 investments, and principal and interest

Last Twelve Months



Non-Operating *(continued)*

Non-Operating Liabilities *(continued)*

payments on existing and maturing holdings. Strong fund flows signal generally that investors have more cash to put to work, a boon to demand. Fund inflows generally are moderate and consistent over time. 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)*

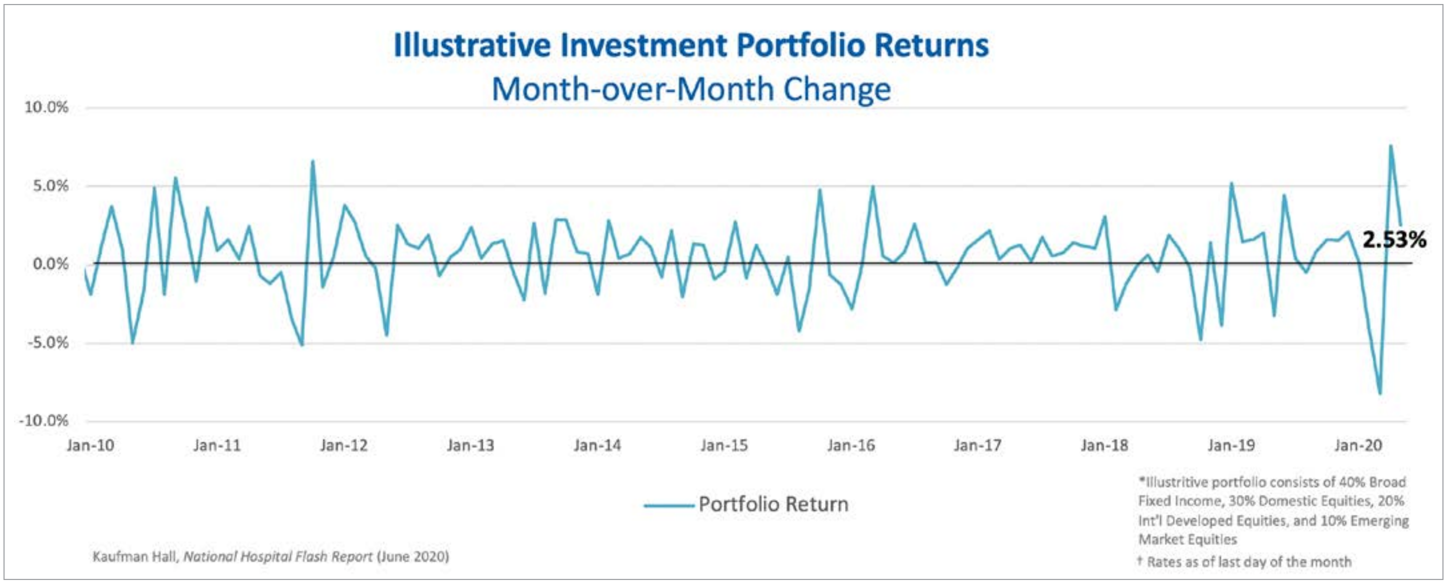
Non-Operating Assets

Equities continued to rally in May, due to substantial intervention by the Federal Reserve and improving economic signals as many states moved to partially resume business. The S&P 500 increased 4.5% in May, continuing its drastic recovery from March's plunge and leaving the index just 5.8% lower than the beginning of 2020. The Blended 60/40 Asset Allocation finished May 2.5% higher, with the MSCI World Index up 4.6% and MSCI Emerging Markets up 0.6%. The Barclays Aggregate Bond Index finished the month 0.5% higher, and was up 5.5% year-to-date.

As of publishing time, equities continued to rally into June before stumbling in response to the Fed's bearish economic forecast. In early June, the NASDAQ closed above 10,000 for the first time in the index's history, while the S&P 500 continued to inch toward its all-time-high levels seen before the sell-off from pandemic fears.

These recoveries were largely fueled by investors' confidence in the Fed's ability to continue providing liquidity to the market through quantitative easing

Long Term



Non-Operating *(continued)*

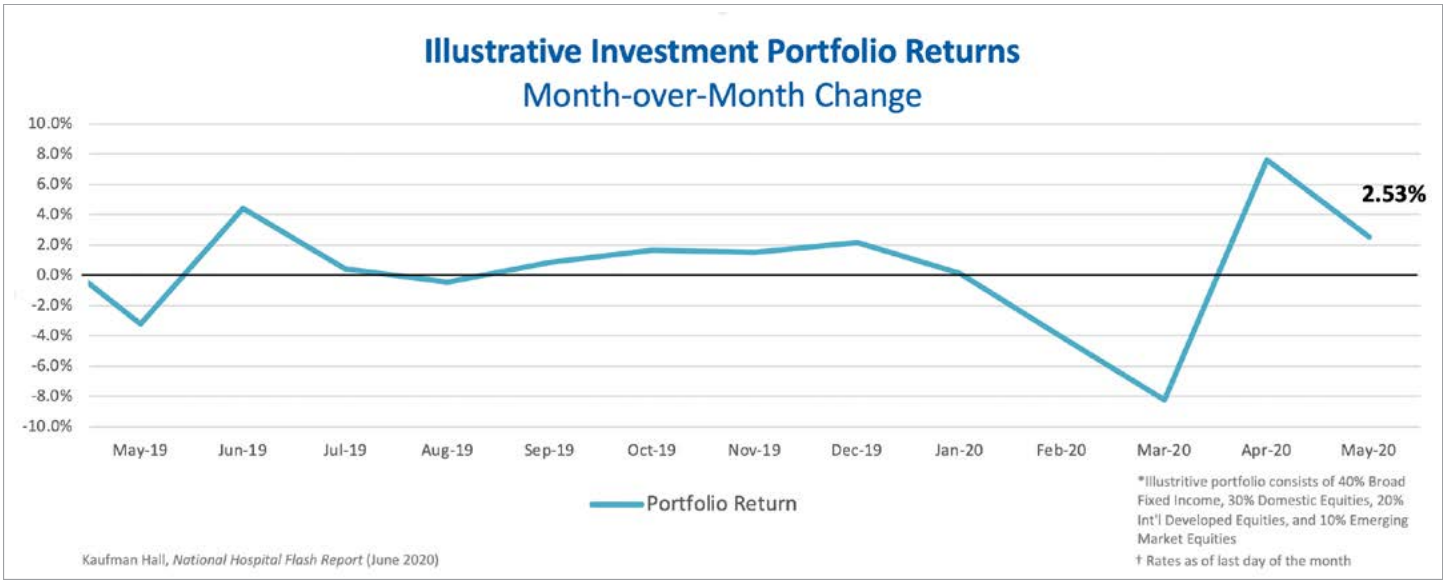
Non-Operating Assets *(continued)*

and low rates. However, investor sentiments soured in response to Fed Chairman Jerome Powell's statement that the Fed is "not thinking about raising rates—[the Fed is] not even thinking about thinking about raising rates," signalling the Fed's uncertain forecast of any near-term economic recovery.

Accompanying cautious economic sentiments are fears of a resurgence of COVID-19 cases.

Consequently, the Dow plunged 1,800 points in a single trading session and the market saw a sharp uptick in volatility. The Fed reiterated its commitment to employ its full array of tools to boost the economy, and as of June 15, equities had regained some steam for upward movement after a brutal sell-off the prior week. However, the S&P 500 closed more than 5% below its June 8 peak as bearish sentiments continue to loom in global markets.

Last Twelve Months



About Data

The *National Hospital Flash Report* uses both actual and budget data over the last three years, sampled from over 800 hospitals on a recurring monthly basis from the Axiom Comparative Analytics™ tool. 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. Advanced statistical techniques are used to standardize data, identify and handle outliers, and ensure statistical soundness prior to inclusion in the report. While this report presents data in the aggregate, the Axiom Comparative Analytics™ tool also contains this real-time data down to individual department, jobcode, paytype, and account levels, which can be customized into peer groups for unparalleled comparisons to drive operational decisions and performance improvement initiatives.

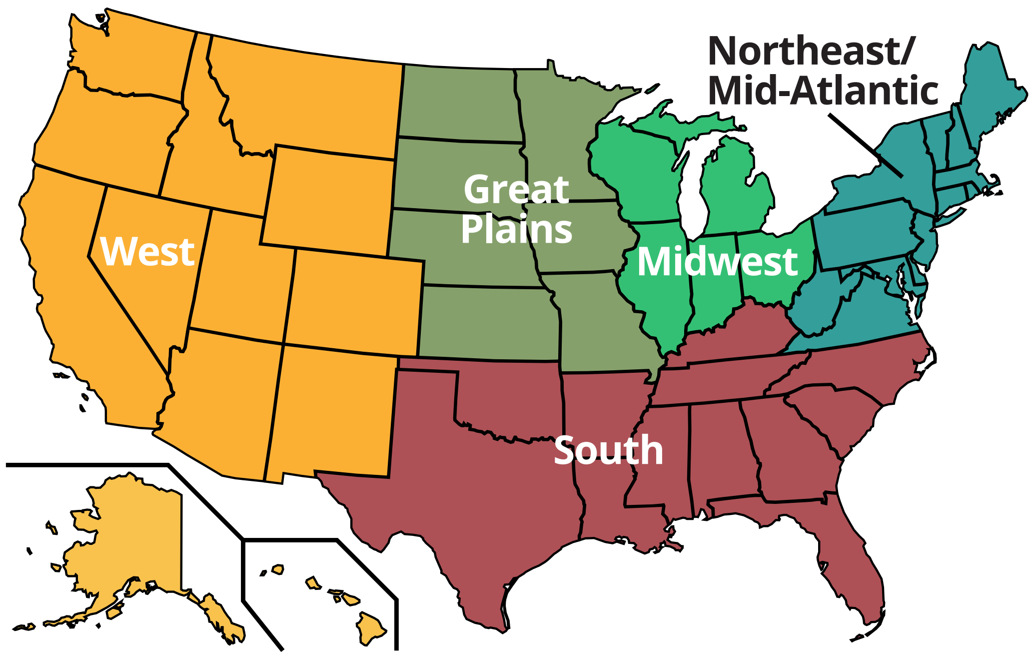
Axiom is the wholly owned software division of Kaufman Hall.

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



Contributors

Publisher
Jim Blake

Editorial
Rob Fromberg
Carolyne Krupa

Data Science and Analytics
Erik Swanson
John Maxwell
Michael Voss
Ian Crane
Anika Ghosh
John Doerpinghaus
Will Newton
Jennie Dulac

Data Operations and Technology
Scott Engel
Jared Murray

Subject Matter Specialists
Margin, Dan Majka
Margin, Kris Goetz
Volume, Jeff Kilpatrick
Volume, Brian Pisarsky
Revenue, Jason Sussman
Revenue, John Bauerlein
Expense, Gregg Lambert
Expense, Therese A. Fitzpatrick
Expense, Brian Hubbard
Non-Operating, John Andersen
Non-Operating, Ilan Weissberg
Non-Operating, John Ahn
Non-Operating, Garrett Johnson

Axiom Comparative Analytics Product
Kermit Randa
Kevin M. Smith

Axiom Sales and Marketing
Craig Jones
Amanda Johnson

Marketing
Christine Campbell

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