

Hospital Financial Condition

October, 2023

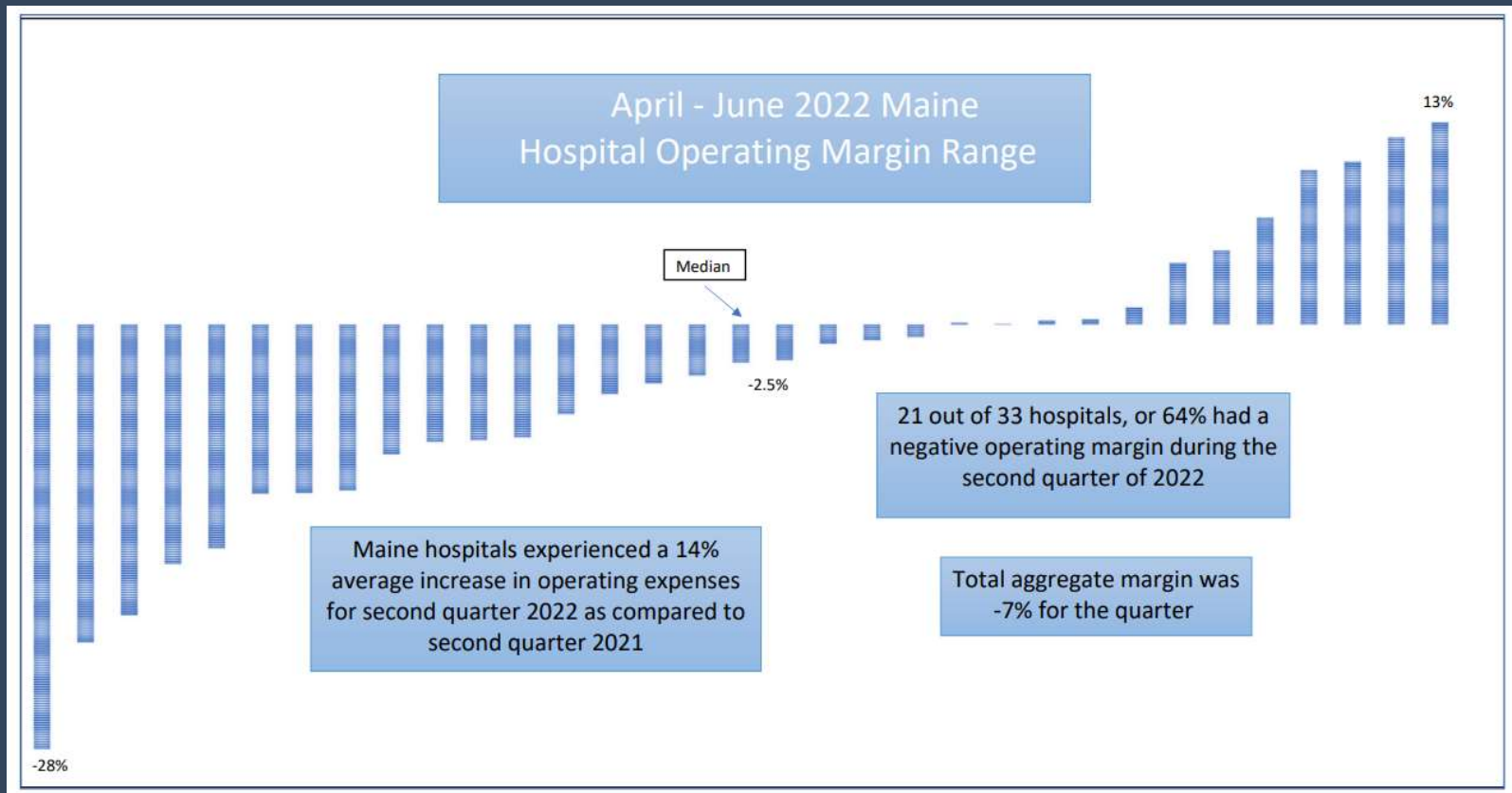


Hospital financial condition has stabilized but is weak.

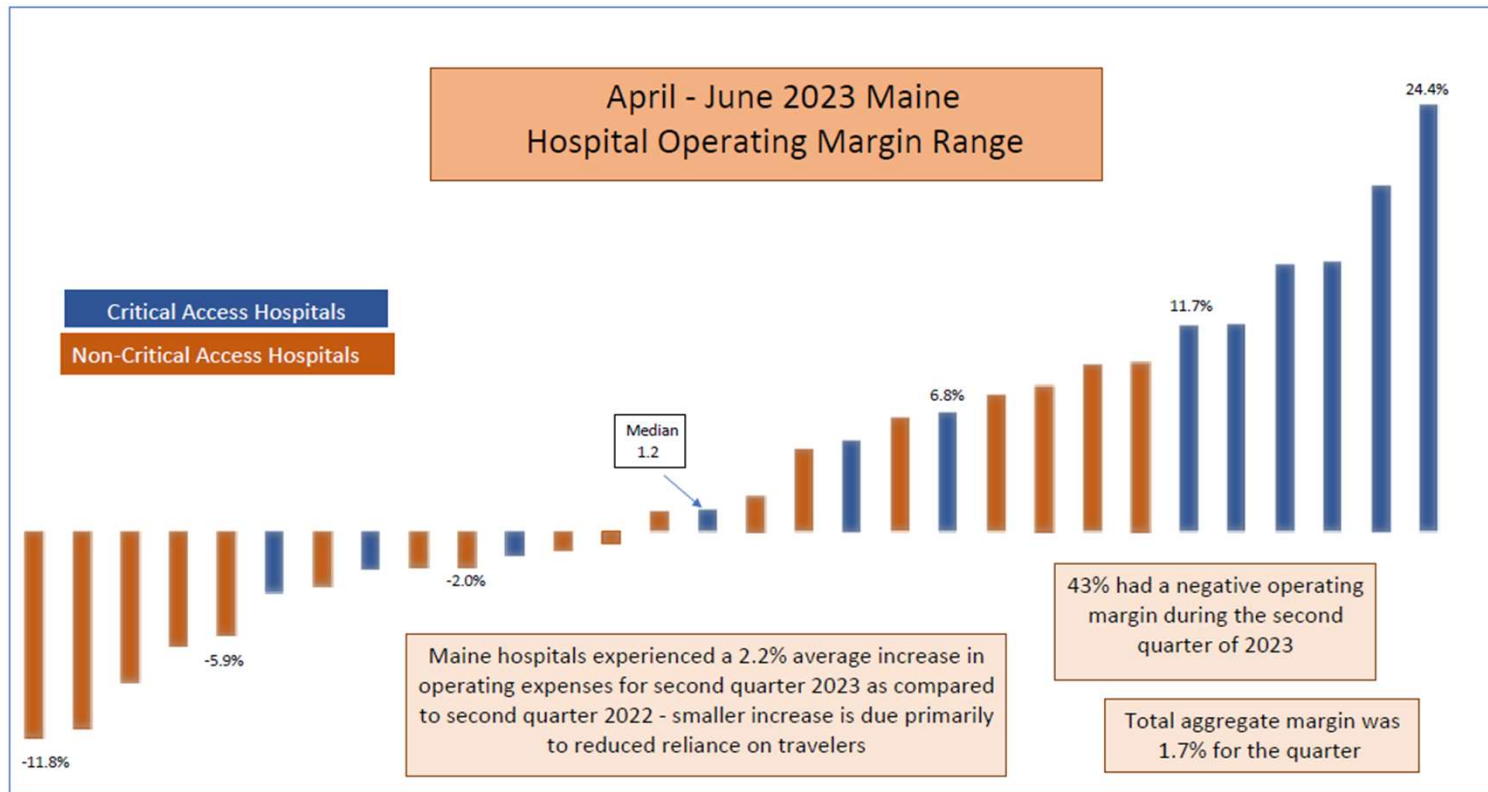
The primary concerns are lack of workforce, inflation and unreimbursed expenses.

Operating Margins

Operating Margins - 2022 (Q2)



Operating Margins - 2023 (Q2)



Operating Margins - Maine 2022

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bridgton Hospital	7.27%	4.05%	-0.27%	1.81%	-3.12%	-4.05%	4.04%	9.64%	15.90%
Calais Community Hospital	-9.02%	-5.23%	-3.49%	-6.58%	-2.28%	-3.24%	13.48%	5.61%	N/A
Cary Medical Center	3.63%	3.17%	-1.00%	-1.35%	1.41%	1.28%	1.31%	4.51%	0.00%
Central Maine Medical Center	1.76%	2.95%	-1.84%	-3.18%	-3.15%	-4.83%	-2.63%	-4.53%	-5.70%
Coastal Healthcare Alliance*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.28%
Down East Community Hospital	-5.35%	-0.57%	2.00%	1.60%	0.27%	4.11%	5.27%	15.84%	N/A
Franklin Memorial Hospital	-4.20%	-0.69%	-6.21%	-6.38%	-7.18%	-12.02%	-0.03%	0.38%	-2.95%
Houlton Regional Hospital	-1.73%	-1.46%	-2.40%	-1.07%	-0.79%	-1.20%	0.14%	7.72%	5.80%
LincolnHealth	-1.26%	2.47%	0.52%	3.39%	3.58%	2.62%	-1.76%	5.76%	4.52%
Maine Medical Center	3.50%	3.51%	4.73%	4.60%	4.60%	4.60%	0.26%	3.93%	-1.78%
MaineGeneral Medical Center	-3.61%	-6.15%	0.05%	-4.26%	0.42%	1.23%	-1.48%	-1.14%	0.90%
Mid Coast Hospital	2.54%	1.91%	0.60%	1.65%	0.36%	2.85%	-8.64%	2.12%	-9.71%
Millinocket Regional Hospital	-9.04%	-3.12%	-2.90%	-4.66%	-20.89%	-6.54%	-1.16%	10.47%	1.90%
Mount Desert Island Hospital	-2.43%	1.12%	0.51%	3.93%	2.96%	0.85%	2.40%	10.28%	10.50%
Northern Light A.R. Gould Hospital	-3.14%	0.14%	-10.44%	0.94%	2.56%	-0.38%	-0.39%	-2.22%	-7.10%
Northern Light Acadia Hospital	2.30%	4.68%	6.33%	19.82%	5.90%	15.56%	10.50%	10.71%	6.10%
Northern Light Blue Hill Hospital	5.27%	6.46%	2.72%	2.34%	10.86%	4.50%	7.06%	13.24%	15.90%
Northern Light C. A. Dean Hospital	-1.59%	-1.20%	-10.93%	6.26%	11.00%	10.02%	6.31%	18.60%	3.30%
Northern Light Eastern Maine Medical Center	2.50%	5.49%	3.83%	3.25%	1.01%	5.18%	-4.00%	5.16%	-8.00%
Northern Light Inland Hospital	-2.31%	0.31%	-0.80%	1.20%	-4.00%	-7.69%	-3.97%	2.73%	-10.90%
Northern Light Maine Coast Hospital	-6.52%	-9.68%	-7.43%	-7.52%	-5.58%	2.26%	-6.66%	-1.03%	3.30%
Northern Light Mayo Hospital	-1.88%	-0.02%	-3.27%	-3.60%	-2.96%	-5.94%	-8.13%	7.82%	8.00%
Northern Light Mercy Hospital	1.15%	-10.22%	-7.92%	-1.85%	0.69%	5.28%	-5.31%	3.42%	-5.10%
Northern Light Sebasticook Hospital	6.49%	3.31%	3.95%	10.40%	13.83%	10.00%	6.77%	17.68%	17.70%
Northern Maine Medical Center	0.50%	1.50%	0.40%	13.30%	0.70%	0.82%	2.50%	4.29%	-3.54%
Penobscot Valley Hospital	-3.90%	-5.24%	-9.84%	-8.72%	-5.44%	-1.93%	8.04%	8.12%	-9.80%
Redington-Fairview General Hospital	-3.65%	-3.65%	0.01%	0.12%	0.17%	2.65%	2.26%	3.48%	1.80%
Rumford Hospital	0.94%	-1.23%	-2.44%	-0.29%	-4.22%	-2.30%	6.33%	6.32%	9.90%
Southern Maine Health Care	N/A	-3.41%	-2.83%	-0.17%	-2.26%	1.85%	-7.07%	7.49%	-4.53%
Spring Harbor Hospital/Maine Behavioral Healthcare	0.41%	0.43%	-1.63%	2.26%	1.48%	1.43%	-2.08%	-5.84%	-16.22%
St. Joseph Hospital	8.97%	1.33%	2.20%	0.63%	-9.42%	0.72%	-0.33%	-0.25%	-5.40%
St. Mary's Regional Medical Center	-1.67%	-1.68%	1.01%	-0.52%	-11.93%	-0.41%	-6.06%	-3.63%	TBD
Stephens Memorial Hospital	6.38%	4.95%	2.54%	2.10%	2.18%	4.20%	6.45%	13.20%	13.81%
York Hospital	-1.91%	-0.51%	-1.45%	-1.60%	-1.17%	-3.89%	-8.33%	3.09%	-1.20%

* Pen Bay Medical Center & Waldo County General Hospital merged to form Coastal Healthcare Alliance in 2022

Color Code:
 Operating Margins < 0
 Operating Margins 0 - 4.99%
 Operating Margins 5%+

Source:
 Maine Health Data Organization
 Audited Financial Statements

Hospitals with **negative** operating margins:

- **2016 - 19 hospitals**
 - **Median Margin = (0.54%)**
- **2018 - 15 hospitals**
 - **Median Margin = 0.39%**
- **2020 - 17 hospitals**
 - **Median Margin 0.73%**
- **2022 - 17 hospitals**
 - **Median Margin (2.2%)**

Operating Margins - Nationally

Consulting firm KaufmanHall tracks hospital financial performance nationally and found that median operating margins YTD through August was 1.1%. Very similar to our numbers for Maine.

Their Key Takeaways

- *1. Hospital performance in August improved compared to July as margins continue to stabilize. While margins are still below historical levels, there is less variance and an overall trend of positive margins in 2023.*
- *2. Lengths of stay in 2023 continue to decline. Patients continue to resume more normal patterns of accessing care.*
- *3. Expenses increased but were offset by increased revenue. Labor expenses also declined alongside less contract labor utilization, reflecting overall financial stability..'*
- **- Kauffman Hall (September 2023, National Hospital Flash Report)**



Operating Margins - Nationally 2022

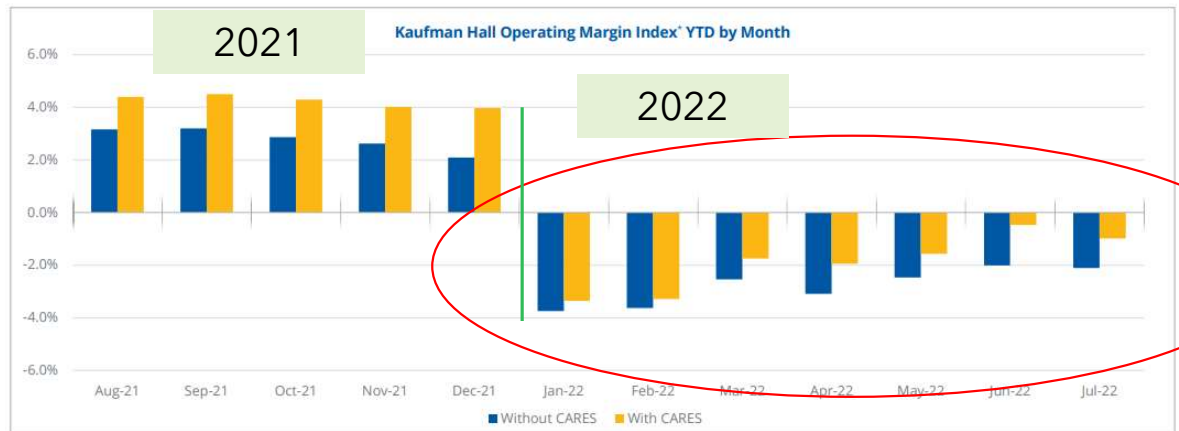
NATIONAL HOSPITAL FLASH REPORT AUGUST 2022

National Margin Results

MARGIN % CHANGE	Budget Variance	Month-Over-Month	Year-Over-Year	Year-Over-Year 2020
Operating EBITDA Margin Less CARES	-48.9%	-35.5%	-49.9%	-50.6%
Operating Margin Less CARES	-73.2%	-46.4%	-78.9%	-64.7%

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

MARGIN ABSOLUTE CHANGE	Budget Variance	Month-Over-Month	Year-Over-Year	Year-Over-Year 2020
Operating EBITDA Margin Less CARES	541.59	455.39	682.65	706.03 bps
Operating Margin Less CARES	539.02	528.37	757.96	786.15 bps

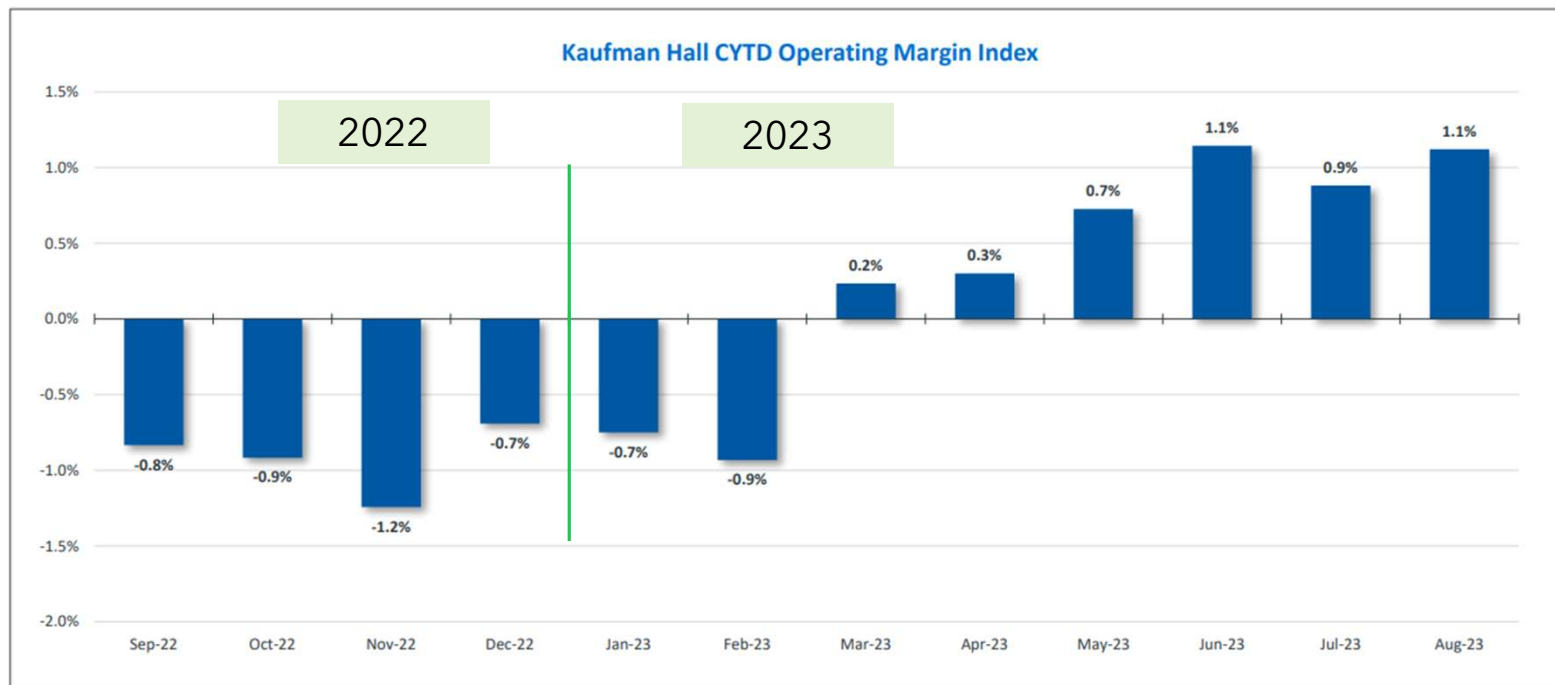


Source: National Hospital Flash Report (August 2022)

Operating losses took a significant turn for the worse in 2022. CARES Act relief is going away.

Operating Margins - Nationally 2023

Operating Margin



Kaufman Hall, National Hospital Flash Report (September 2023)

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

2022 was simply a very bad year.

2023 has improved, but margins are still quite thin.

Source: Kaufman, Hall & Associates, LLC | flashreportmember.kaufmanhall.com

Expenses

Expenses - Nationally

Not-for-Profit Hospitals Median YOY Change in Revenues and Expenses



Source: Fitch Ratings



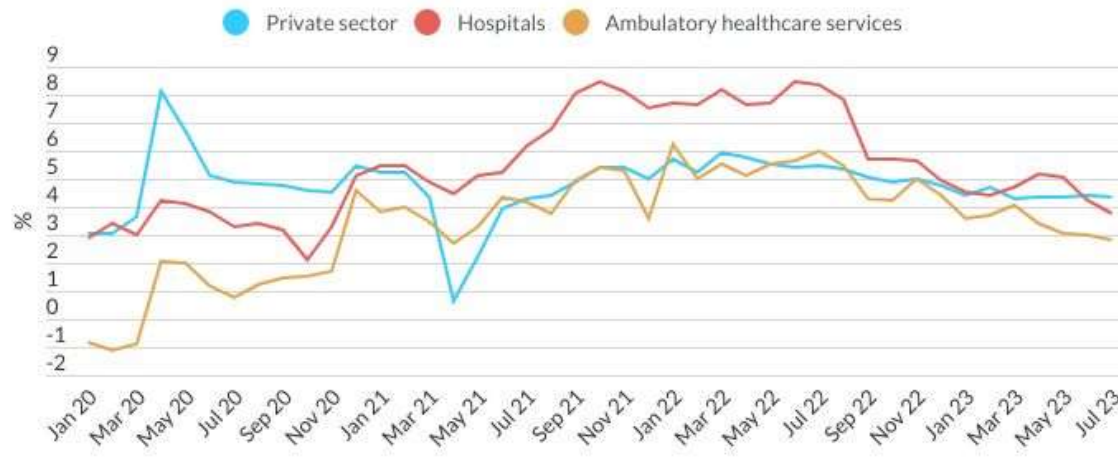
Fitch rating agency presented its overview of the healthcare sector for the upcoming year on October 3rd. It stressed ongoing labor costs as the biggest challenge for healthcare.

“Controlling expenses, especially labor costs, will be critical for not-for-profit hospitals to return to stronger margins and alleviate credit pressure, Fitch Ratings says. Hospital volumes have largely recovered from the initial hit during the pandemic and are generally at, or even above, pre-pandemic levels for many in our rated portfolio. However, expenses, particularly salaries and wages, remain stubbornly high.”

“We expect weak margins to persist through 2023 and into 2024 due to an inelastic revenue model and higher labor costs due to still very tight labor conditions, even as operations broadly continue to gradually rebound.”

Expenses - Nationally

YOY Growth in Average Hourly Earnings



Source: Fitch Ratings, U.S. Bureau of Labor Statistics

FitchRatings

The Fitch analysis went on to stress wage pressures in healthcare.

“The ‘labordemic’ of staffing shortages, both clinical and non-clinical, will likely continue through 2024, and probably longer in many markets, with high-growth markets generally, but not always, better able to address staffing challenges.”

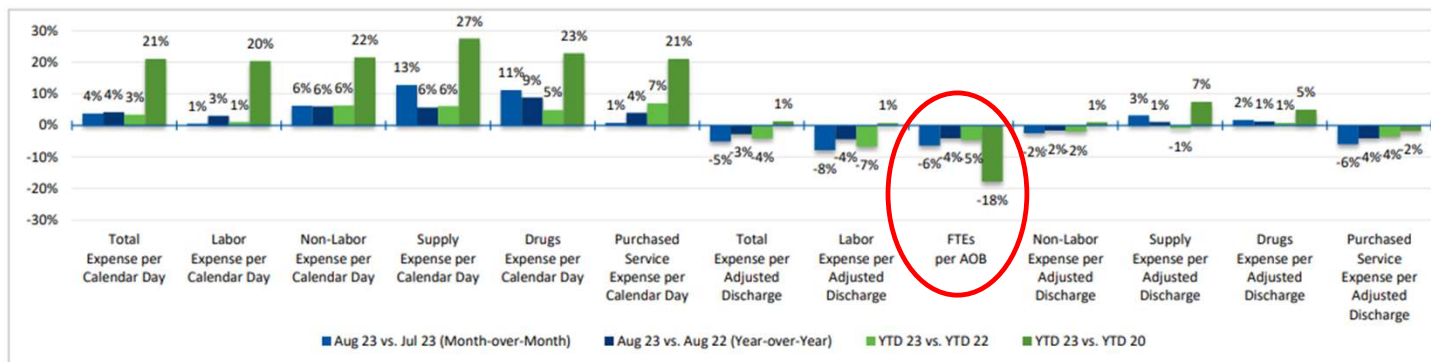
Positively, hospitals have begun to wean themselves off of more expensive travel nursing staff and build their permanent staffing levels by offering higher salaries and bonuses in some cases.

Hospital employees’ average hourly earnings growth slowed to 3.75%, down from a high of 8.4% since the start of the pandemic, but remains well above the 2.3% growth of hospital employees from 2010 to 2019.”

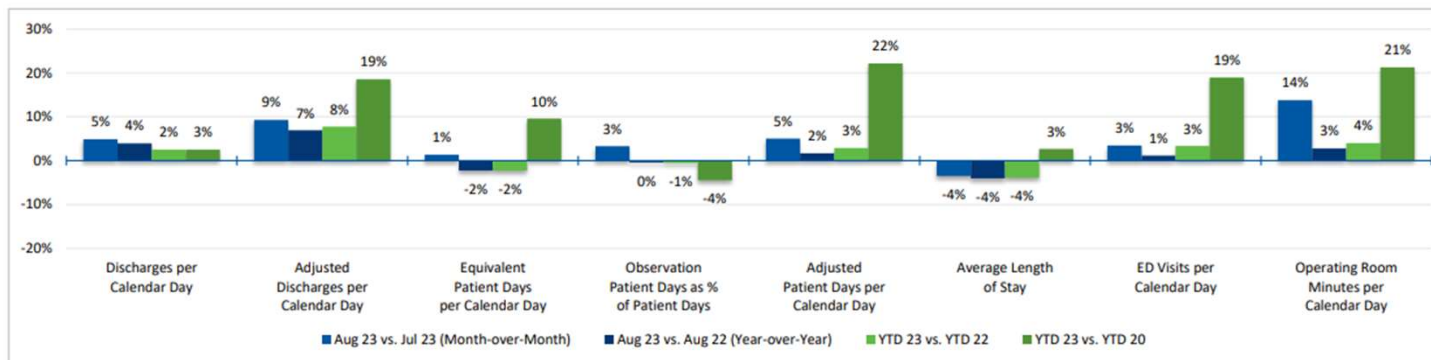
Expenses - Nationally

National Data *(continued)*

Expense



Volume



Labor costs are up, but workforce remains stubbornly difficult.

Expenses - Nationally



According to Vivian Health, travel nurse expenses spiked during COVID but have steadily declined. They are still more than 20% higher than prior to pandemic.

Challenges

Expenses are still very high.

Carrier relationship is strained.

**Nursing facilities are having a hard time
accepting patients...backing-up discharges
in hospitals.**

Workforce, workforce, workforce.

Bottom Line

**Hospitals are “ok” after a very difficult
2022.**

**While hospitals are less reliant on very
expensive temporary labor (travelers) there
is still a shortage of full-time workers.**

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