



OVERVIEW

Beginning in 2022, the Arizona Hospital and Healthcare Association (AzHHA) began collecting quarterly data from members in order to better understand hospital financial challenges on an on-going basis. AzHHA's first Quarterly Financial Analysis compiles data from the 2021 Uniform Accounting Reports (UAR) and looks at trends occurring in the first and second quarters of calendar year 2022 (2022 Q1 and Q2). [i]

Operating margin

While the UARs report overall healthy operating margins of approximately 7.4% in hospital fiscal year (HFY) 2021, data from 2022 shows a different story. Of the reporting hospitals, net operating margin averaged 4.6% in 2021, fell to 0.5% in 2022 Q1 and -8.7% in 2022 Q2. [ii]



Downturn driven by:

- large increases in expenses,
- a substantial decrease in COVID-19 relief funds, and
- hospitals repaying Medicare accelerated payments.

KaufmanHall, which surveys more than 900 hospitals each month, states, “U.S. hospitals and health systems are experiencing some of the worst margins since the beginning of the pandemic, and 2022 continues to be on pace to be the worst year of the pandemic in terms of financial performance.” The median KaufmanHall year-to-date operating margin was -.98%. Fitch’s midyear report for non-profit hospitals is described as “deteriorating.” The report states that “Fitch expects that sector conditions will remain challenged for the remainder of 2022, as labor pressures and generationally elevated inflation compress margins for most providers.”

[i] Hospitals submit an annual UAR five months after the end of their fiscal year. Since hospital fiscal years (HFYs) vary, the reports do not represent a uniform time frame.

[ii] Includes information from 21 AzHHA hospitals which reported quarterly data through 2022 Q2 as of September 25, 2022.



IN A SURVEY OF AZHHA HOSPITALS, ALL CFOs LISTED
STAFFING SHORTAGES AND
COMMENSURATE INCREASED STAFFING COSTS
AS THEIR **NUMBER ONE FINANCIAL ISSUE.**

Staffing Issues

Hospitals reported a 15% increase for salaries and wages from 2020 to 2021.

One AzHHA Chief Financial Officer summed it up by stating “the biggest challenge has been recruiting and retaining staff...This becomes a financial issue due to needing to pay overtime wages, bonus payments to incentivize staff to pick up additional shifts, and outside contract labor.”

AzHHA hospitals report contract labor increasing by 170% in 2022 Q1 and 231% in 2022 Q2 from a year earlier.



Other Rising Costs

Like consumers, hospitals are not immune to other inflationary impacts. UAR data shows that employee benefits increased by 6% and medical supplies by 11% in HFY 2021 from the prior year. In 2022, AzHHA hospitals report a 7% increase in salaries and wages, 8% for medical supplies and 13% for medical drugs from one year prior.