



Minnesota Hospital Association

The Financial Health of Minnesota Hospitals and Health Systems

April 2022



MHA'S FINANCE REPORT AT A GLANCE



The pandemic exacerbated the already declining median operating margins for Minnesota's hospitals and health systems to a mere 1.2%.



Without federal and state COVID-19 financial intervention, most Minnesota hospitals and health systems would have been operating in the red.



Most COVID-19 patients were on government-sponsored health programs, which compensate hospitals and health systems significantly below the actual cost of care.



A worsening workforce shortage dramatically increased staffing costs.

ABOUT THE DATA

This report reflects fiscal year (FY) 2020 data for 75 hospitals and health systems in Minnesota. All but one of Minnesota's hospitals and health systems reflected in this report are operated as either private, not-for-profit organizations, or government-owned organizations and are driven by missions dedicated to strengthening community health.

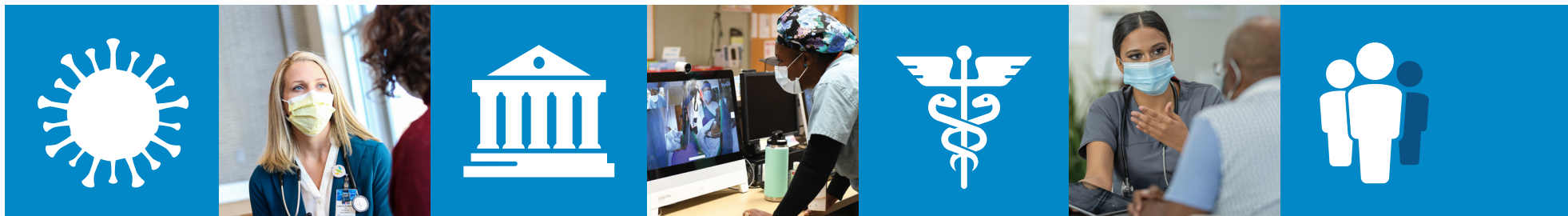
Hospitals and health systems include clinics and services that span the entire continuum of care: primary care, ambulance and emergency medical services, hospice, nursing home care, home care, mental health services, and the most specialized and complex care – including organ transplants, burn care and chronic disease management.

For reporting accuracy, MHA's data are derived from hospitals' and health systems' independently audited 2020 financial statements and publicly available information collected by the Minnesota Department of Health (MDH). MHA collects this information as part of hospitals' and health systems' reporting requirements under the state-mandated Health Care Cost Information System. MDH maintains similar information as mandated by Minnesota Statutes sections 144.695-144.703.

MHA relies on the operating margin as one key indicator to evaluate hospitals' and health systems' financial performance. An operating margin is a measure of revenues compared with expenses related to patient care services and activities. While many indicators are relevant for thorough financial health and performance analysis, the operating margin is the most recognizable, succinct, bottom-line measure.

While there is no specific benchmark operating margin established for not-for-profit or government organizations, a positive operating margin is critical to ensure their ongoing ability to serve patients in their community, to reinvest in innovations and new services, to maintain strong credit ratings and affordable access to capital, and to recruit and retain the highly educated and skilled workforce necessary to care for patients.

Reported financial data from specific hospitals and health systems can be found at the end of this report.



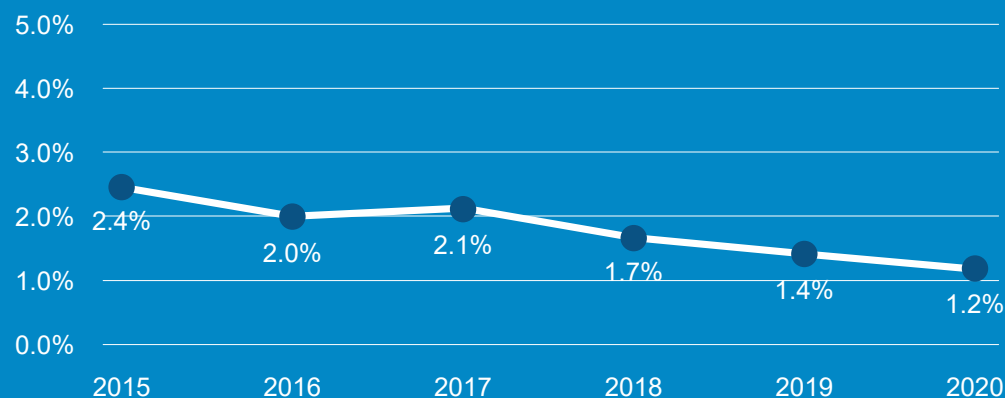


PANDEMIC EXACERBATES A FINANCIAL CRISIS

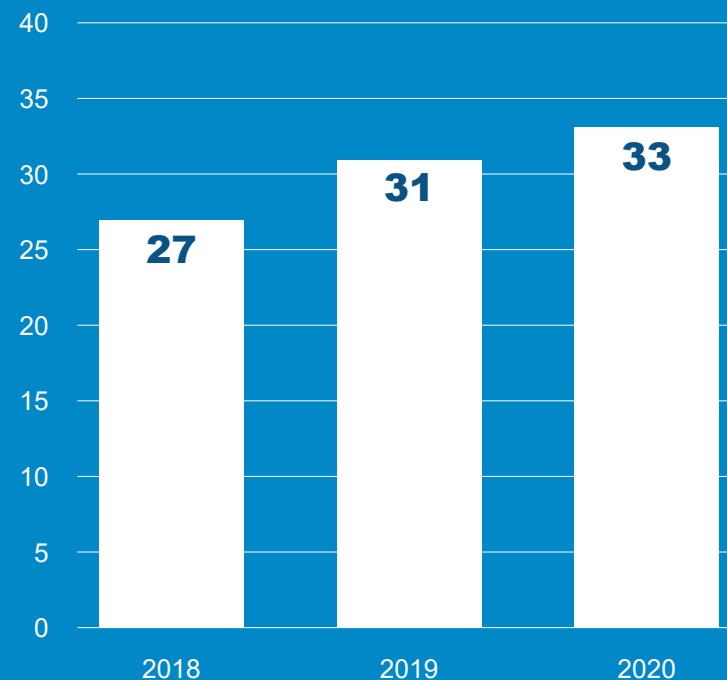
The median operating margin in 2020 was a mere 1.2%, declining for the third straight year. Hospital and health system operating margins were already faltering, and the effects of the pandemic accelerated that decline, which is predicted to last for years to come. Although hospitals and health systems endured the physical and emotional toll of caring for patients, they are also struggling to deal with the strain resulting from the financial consequences of a historic pandemic. The number of hospitals and health systems operating at a negative margin within the state rose from 31 to 33, which represents 44% of hospitals and health systems on the list.

There is a misconception that because hospitals and health systems saw large COVID-19 volumes, their margins should be high performing. However, the harsh reality is that many of the margin-positive services the state's hospitals and health systems offer, were the very ones that were paused or canceled to increase care capacity for a steady stream of high-cost, high acuity patients in a financial environment of skyrocketing expenses and labor costs.

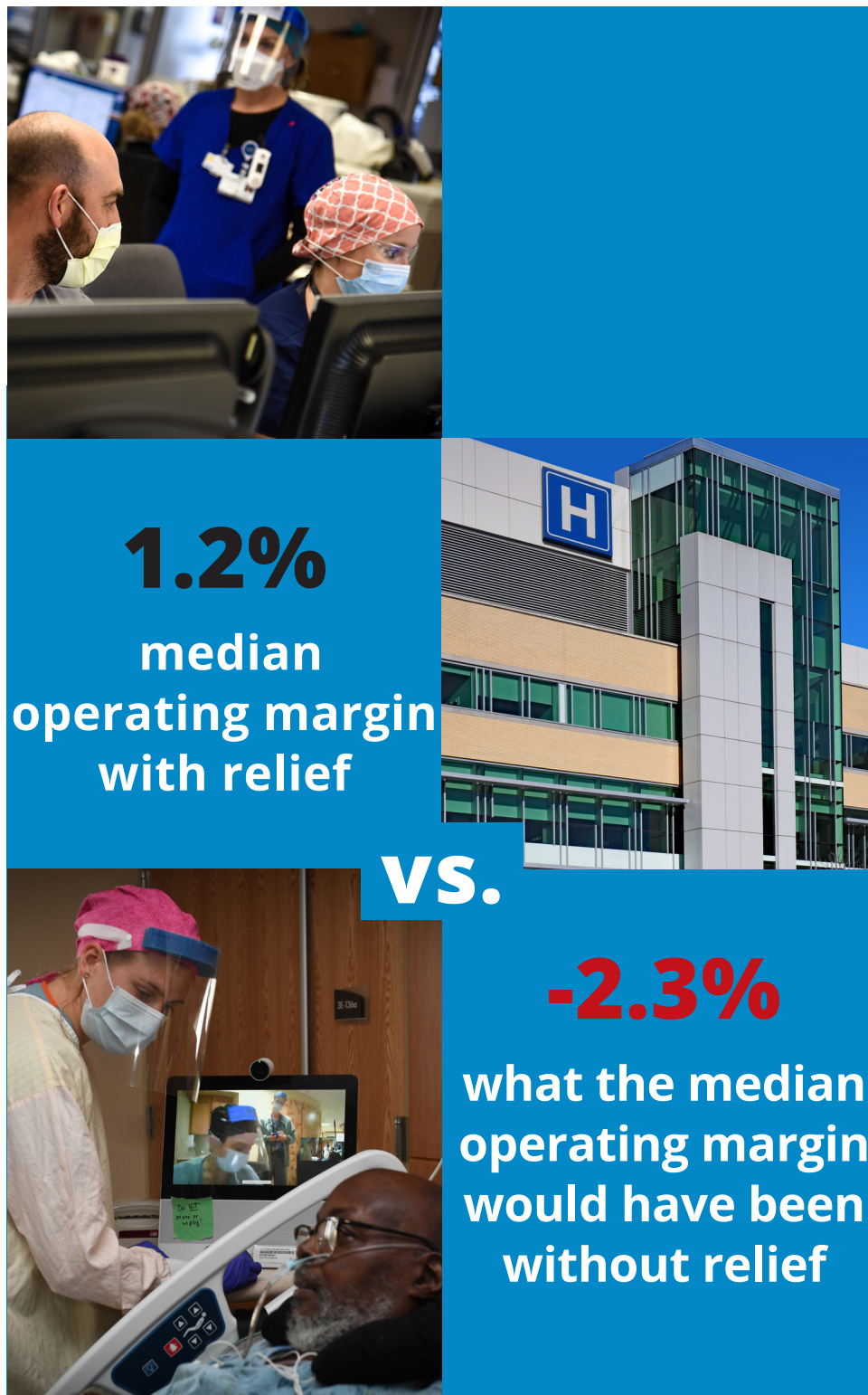
Statewide MN Hospital
Median Operating Margin %



of MN hospitals and health systems
with negative operating margins



Source: Hospital and health system audited financial statements.



EMERGENCY INTERVENTIONS

While the short-term relief packages set out by both Congress and the state legislature were appreciated and necessary, the fiscal impact of the pandemic will be long-lasting. Hospitals and health systems received an estimated \$850 million in federal emergency aid, and an estimated \$150 million from the state. The short-term federal and state relief helped Minnesota hospitals and health systems stay afloat, however the current and future outlook of the financial stability of these systems is extremely concerning.

The COVID-19 pandemic has clearly highlighted the value of local hospitals and health systems in communities across Minnesota. Without short-term and long-term sustainable solutions to the financial crisis hospitals and health systems are facing, access to care for our Minnesota communities could be compromised.



THE GRIM REALITIES FACED BY HOSPITAL AND HEALTH SYSTEM LEADERS

Not-for-profit health system leaders across Minnesota are confronted with a worsening financial outlook that will not be easy to solve – flat revenues and escalating expenses that are beyond their control. On the revenue side, over half of the revenue sources are from Medicare and Medicaid reimbursement mechanisms that are set through regulations and generally pay below the cost of care. The rest of the payer sources, i.e., commercial insurance contracts have negotiated limits that constrain revenue growth. On the expense side, increased workforce costs and double-digit inflation for most supplies and services create a cost growth that is difficult to overcome given the revenue constraints.

REVENUE CONSTRAINTS

Reimbursements from Governmental Payers Below Cost

- Medicare reimbursed hospitals 20% below cost, on average, leaving a \$1.6 billion gap statewide.
- Medicaid reimbursed hospitals an estimated 27% below cost, on average, leaving a \$868 million gap statewide.

Uncompensated care

- As health insurance companies increasingly enroll people in high- deductible health plans, which place greater financial responsibility on individual patients and their families, hospitals and health systems shoulder more losses from unpaid co-pays and deductibles.
- Providing financial relief for low-income individuals with charity care or bad debt is an important part of the mission of a non-profit hospital and health systems. Uncompensated care costs must be balanced as part of operations to maintain needed services for the entire community.

Pausing procedures

- Canceling non time-sensitive procedures was necessary to create capacity for COVID-19 patients, creating significant revenue challenges.

Meeting community needs with low margin services

- Health care organizations respond to community needs by providing many services that have low or even negative margins. Examples often include mental and behavioral health care, nursing home services, or home health agencies.

EXPENSE CHALLENGES

- Workforce costs comprise around 52% of a hospital's operating costs. These costs were driven up dramatically with overtime pay, retention bonuses, extra benefits, and staffing agency fees.
- The cost of patient care supplies, PPE, pharmaceuticals, information technology, electronic health records, imaging, lab equipment, utilities, insurance, and other costs skyrocketed like other parts of the economy.

MARGIN

- Hospitals and health systems need to be financially solvent to meet the health care needs of their community.

MILLIONS
of dollars in health care
staffing agency fees



40,000+
vacant positions



WORKFORCE CRISIS

Health care delivery systems are heavily dependent on a highly educated and skilled workforce to deliver the sophisticated and lifesaving care patients need. In addition, Minnesota has teaching hospitals and health systems that invest in medical education to train the next generation of caregivers. To recruit and retain these talented caregivers and employees, jobs at hospitals and health systems typically pay higher wages and salaries than in other sectors, according to data from the U.S. Bureau of Labor and Statistics. Approximately 52% of a typical hospital's and health system's expenses are in the form of wages and benefits to recruit and retain all the care team members necessary to deliver excellent patient care. Across Minnesota, workforce shortages in key clinical areas further increase compensation costs.

According to MHA's workforce report of clinical staff analyzing trends in hospitals and health systems, jobs at hospitals and health systems typically pay higher wages and salaries than other sectors. MHA's workforce report of clinical staff analyzing trends in Minnesota's hospitals and health systems confirms the national finding that jobs at hospitals and health systems typically pay higher wages and salaries than other sectors. This is explained, in part, due to the complexity of hospital-based care. Given the shortage of highly skilled medical-surgical and ICU trained personnel, hospitals and health systems had to seek help from temporary staffing agencies. However, the competition among states for these temporary workers created supply challenges and unsustainable cost inflation making it difficult for many hospitals and health systems to get the needed help to serve patients.

In order to retain and recruit staff as well as to compete with the temporary staffing agencies, hospitals and health systems took several steps such as increasing base pay, overtime pay, providing retention bonuses and increasing benefits such as paid time off to address workforce quarantine needs, illness, and childcare concerns.



Hospitals and health systems' mission is to care for Minnesotans when and where they need them. Our health care organizations will always stand ready to meet the needs of all patients and communities by providing the high-quality care that has consistently been nationally recognized for years.

Given the worsening financial crisis faced by hospitals and health systems in Minnesota, urgent state and federal financial assistance is needed to stabilize this industry in the short-term. In addition, longer term solutions are needed to assist with the workforce crisis and provide resources to ensure readiness for future surges and pandemics. Finally, innovative partnerships with health insurance companies, both commercial and governmental, are needed to ensure that this nation leading health care is available to all Minnesotans across all parts of our state.



Gratitude

The Minnesota Hospital Association (MHA) appreciates the leadership of the MHA Finance Committee in guiding the development of this report and the input of hospital and health systems providing the data for analysis. This report about the financial health of the hospital and health system community would not be complete without expressing our deep gratitude for our health care heroes and staff for their tireless service to patients and communities throughout Minnesota every day.

Appendix

Hospital- and health system-specific operating and net margins

The chart below lists both the operating margin and net margin in total dollars and as percentages for Minnesota's hospitals and health systems. Detailed information about individual hospitals within multihospital health systems is not available because it is generally not presented in audited financial statements. The figures presented below are based on the fiscal year-end operating period that ended in 2020.

Hospital	FY2020 Operating Margin Dollars	Operating Margin %	FY2020 Net Margin Dollars	Net Margin %
Allina Health	-\$36,214,000	-0.8%	\$76,148,000	1.7%
Alomere Health *	-\$5,169,749	-3.3%	\$7,711,451	4.5%
Appleton Area Health *	\$1,858,411	11.7%	\$2,119,719	13.1%
Avera Granite Falls Health	\$2,839,912	10.4%	\$13,580,212	35.7%
Avera Marshall Regional Medical Center	-\$16,513,192	-14.4%	-\$15,972,485	-13.9%
Avera Tyler	\$671,695	5.6%	\$926,872	7.6%
Bigfork Valley Hospital *	-\$3,436,000	-16.0%	-\$695,889	-2.9%
CCM Health *	-\$5,154,381	-11.3%	\$1,130,746	2.2%
CentraCare	\$7,340,000	0.4%	-\$20,616,000	-1.2%
CHI LakeWood Health	-\$2,808,821	-20.2%	-\$2,457,679	-17.2%
CHI St. Francis Health	-\$881,737	-3.1%	\$1,613,556	5.2%
CHI St. Gabriel's Health	\$101,722	0.1%	\$733,553	1.0%
CHI St. Joseph's Health	\$3,683,968	7.2%	\$5,127,059	9.8%
Children's Minnesota	-\$21,820,000	-2.5%	\$35,295,000	3.8%
Community Memorial Hospital	-\$3,581,165	-5.8%	-\$3,458,734	-5.6%
Cook Hospital & Care Center *	-\$1,174,148	-8.4%	\$1,352,321	8.2%
Cuyuna Regional Medical Center	\$1,833,557	1.4%	\$2,577,900	1.9%
Ely-Bloomenson Community Hospital	-\$374,998	-1.8%	-\$256,734	-1.2%
Essentia Health	\$27,120,000	1.2%	-\$15,940,000	-0.7%
Gillette Children's Specialty Healthcare	-\$3,027,998	-1.3%	\$11,626,366	4.5%
Glacial Ridge Health System *	\$530,869	1.2%	\$1,376,830	2.9%
Glencoe Regional Health	\$2,316,360	3.5%	\$6,502,081	9.3%
Gundersen St. Elizabeth's Hospital & Clinics	-\$8,695,540	-24.0%	-\$8,681,931	-23.9%
HealthPartners, Inc.	\$96,397,000	1.4%	\$266,569,000	3.7%
Hendricks Community Hospital Association	-\$836,897	-6.1%	-\$834,537	-6.1%

Hospital	FY2020 Operating Margin Dollars	Operating Margin %	FY2020 Net Margin Dollars	Net Margin %
Hennepin Healthcare *	-\$113,856,000	-11.5%	\$22,799,000	2.0%
Johnson Memorial Health Services *	-\$236,016	-1.2%	\$486,609	2.5%
Kittson Memorial Healthcare Center	-\$601,791	-3.7%	\$153,324	0.9%
Lake Region Healthcare	\$11,466,002	7.2%	\$17,501,977	10.6%
Lake View Hospital	\$2,179,000	11.4%	\$3,393,000	16.7%
Lakewood Health System	\$6,954,168	6.3%	\$9,303,382	8.2%
LifeCare Medical Center	\$2,802,066	5.5%	\$3,820,621	7.3%
M Health Fairview	-\$215,939,000	-3.5%	-\$20,074,000	-0.3%
Madelia Community Hospital Inc.	-\$806,833	-6.4%	-\$358,205	-2.7%
Madison Healthcare Services	\$544,998	3.1%	\$1,197,077	6.5%
Mahnomen Health Center *	-\$1,118,895	-12.4%	\$974,380	8.8%
Meeker Memorial Hospital & Clinics *	-\$3,872,720	-10.6%	\$1,902,337	4.5%
Mille Lacs Health System	-\$2,501,534	-6.1%	\$1,036,090	2.3%
Murray County Medical Center *	-\$139,411	-0.9%	\$1,451,599	8.8%
North Memorial Health Care	\$2,424,000	0.3%	\$36,272,000	4.1%
North Shore Health *	-\$2,628,609	-14.9%	\$619,072	3.0%
North Valley Health Center	\$1,204,003	7.9%	\$1,303,004	8.5%
Northfield Hospital & Clinics *	-\$3,589,608	-3.6%	\$8,628,850	7.7%
Olmsted Medical Center	-\$85,155	0.0%	\$2,104,831	0.9%
Ortonville Area Health Services *	\$1,015,897	3.3%	\$1,657,587	5.3%
Perham Health *	\$2,290,432	3.8%	\$6,207,269	9.7%
Pipestone County Medical Center *	-\$2,489,965	-8.1%	\$302,995	0.9%
Prairie Ridge Hospital and Health Services	\$3,098,467	13.7%	\$3,371,483	14.7%
Rainy Lake Medical Center	\$831,962	2.8%	\$1,077,818	3.6%
Regency Hospital of Minneapolis **	\$18,919,453	28.3%	\$14,836,802	23.7%
Ridgeview Le Sueur Medical Center	\$1,350,307	9.6%	\$1,365,123	9.7%
Ridgeview Medical Center	-\$14,068,452	-5.6%	-\$2,823,055	-1.1%
Ridgeview Sibley Medical Center	\$1,733,097	11.8%	\$2,503,828	16.2%
River's Edge Hospital & Clinic *	-\$3,259,900	-8.1%	\$66,289	0.2%
RiverView Health	\$2,249,379	3.6%	\$2,407,724	3.9%
Riverwood Healthcare Center	\$1,378,009	1.9%	\$4,304,425	5.8%
Sanford Bagley Medical Center	\$2,593,538	17.3%	\$2,738,469	18.1%
Sanford Bemidji Medical Center	\$12,678,703	3.9%	\$12,779,363	4.0%
Sanford Canby Medical Center	\$2,151,482	8.6%	\$2,392,869	9.4%
Sanford Jackson Medical Center	\$3,210,305	22.0%	\$3,247,022	22.2%

Hospital	FY2020 Operating Margin Dollars	Operating Margin %	FY2020 Net Margin Dollars	Net Margin %
Sanford Luverne Medical Center	\$4,585,868	15.2%	\$4,877,478	16.1%
Sanford Thief River Falls Medical Center	\$12,607,815	16.3%	\$12,793,680	16.5%
Sanford Tracy Medical Center	\$2,254,608	17.6%	\$2,255,416	17.6%
Sanford Westbrook Medical Center	\$498,752	6.1%	\$516,775	6.3%
Sanford Wheaton Medical Center	\$1,569,434	16.2%	\$1,715,467	17.4%
Sanford Worthington Medical Center	-\$262,412	-0.5%	\$216,775	0.4%
Sleepy Eye Medical Center *	-\$664,011	-3.7%	\$140,064	0.8%
St. Luke's Hospital	-\$751,000	-0.2%	\$10,850,000	2.2%
Stevens Community Medical Center	\$792,062	1.9%	\$1,398,793	3.3%
Swift County-Benson Health Services *	-\$2,051,691	-11.5%	\$467,144	2.3%
Tri-County Health Care	\$6,560,660	8.6%	\$7,222,420	9.4%
United Hospital District	\$526,029	1.4%	\$983,241	2.5%
Welia Health	\$2,051,137	2.2%	\$8,691,296	8.7%
Windom Area Health *	\$668,226	3.2%	\$891,152	4.3%
Winona Health Services	\$3,991,145	3.3%	\$7,145,161	5.7%

* Government-owned hospitals' margins may be impacted by fluctuations in PERA pension obligations.

** A for-profit Long Term Acute Hospital as part of the Select Care corporation.

Urban and rural operating margins

Urban and Rural hospital and health system median operating margins have been converging over the past few years and in 2020, urban hospitals and health systems tipped into a negative median operating margin. This is a likely result of the one-time pandemic funding relief.

