



hospTRENDS

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ANNOUNCEMENTS

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Visit the Department of Health web site at <http://www.doh.wa.gov/EHSPHL/hospdata> for a large variety of hospital data and reports. Included are patient guides, hospital discharge data and reports, and hospital financial data and reports. Also included are Directory of Hospitals, CHARS Procedure Manual, *Accounting and Reporting Manual for Hospitals*, Charity Care reports and hospTRENDS.

Your opinions are important to us. Please let us know what you like or don't like about the content and presentation of the hospTRENDS report. Contact information is available on page 6 of this issue.

PREFACE

Summary financial and utilization data are submitted to the Department of Health on a quarterly basis by hospitals in the state of Washington. Reported data are edited, summarized, and analyzed by Hospital and Patient Data staff. Specific data elements are defined in the Department's *Accounting and Reporting Manual for Hospitals*. Utilizing these data, various financial and utilization rates and ratios are calculated to enhance the description of the financial condition of hospitals in the state. The purpose of this series of reports is to provide all concerned parties with information describing emerging hospital utilization and financial trends.

Instead of focusing on individual quarters, the data in this report are aggregated into twelve month periods consisting of four calendar quarters each.

This aggregation reduces the impact of seasonal fluctuations, which could distort actual trends occurring within the hospital industry.

The period covered by this report includes the last calendar quarter of 2002 and the first three calendar quarters of 2003. It provides a preview of where calendar year 2003 results are headed. However, this preview is subject to change. The quarterly reports submitted by hospitals contain interim data which have not yet been subjected to audit review. Future adjustments and/or revisions as a result of both the hospital's internal accounting system review and the formal procedures of outside auditors may result in changes to previously submitted data. These future revisions will be reflected in the hospital's year-end reports. The year-end reports not only reflect audit adjustments but also provide substantially greater detail, which allows analysis of the information provided in greater depth.

SUMMARY

Annual growth rates for the four quarter period ended September 30, 2003 were 14.5% for total patient service revenue and 20.2% for deductions from revenue. This resulted in an increase of 9.7% in net patient services revenue.

The increase of 9.0% in operating expenses combined with a growth of 1.6% in adjusted discharges resulted in operating expenses per adjusted discharge that were 7.2% over the year earlier level. This is substantially higher than the 2.3% advance in the overall consumer price index and slightly above the 7.0% jump in the hospital services component of the index.

Net operating income reached a new high of \$299 million, which was an increase of 33.1% over the year earlier level. This net operating income averaged \$321.30 per adjusted discharge, which exceeded any reported since calendar year 1990. Operating margin advanced to 3.35%, which was the highest achieved since the four quarter period ended June 30, 1998.

After dropping to 59.8 days in the four quarter period ended June 30, 2003, average days in accounts receivable climbed back to 67.2 days for the twelve month period ended September 30, 2003.

FINANCIAL INDICATORS

Total Patient Service Revenue

Total patient service revenue, which is the sum of billed charges for all hospital services, advanced by \$2.1 billion to \$16.3 billion, which was an increase of 14.5%. This was the smallest annual percentage increase in total patient services revenue since calendar year 2001. The growth rates of 13.3% for inpatient revenue and 16.1% for outpatient revenue were the smallest percentage increases recorded since the twelve month periods ended June 30, 2000 and June 30, 2002, respectively. There was no significant difference by payer group in the growth rates of total patient service revenue.

Deductions from Revenue

For the twelve months ended September 30, 2003 total deductions from revenue reached \$7.86 billion. Growing by 20.5% over the previous year and by 46.9% in two years, contractual adjustments

reached \$7.66 billion. By payer group contractual adjustments were up by 25.1% for Medicare, 24.1% for Medicaid, and 15.5% for other payers over the previous year. In two years contractual adjustments grew by 58.6% for Medicare, 57.4% for Medicaid, and by 35.0% for other payers. Contractual adjustments for Medicare and Medicaid reflect the difference between billed charges and the amounts that are actually paid. The difference between billed charges and the payment rates negotiated with major health insurers, managed care plans, HMO's, and other contractual payers is included in contractual adjustments for other payers. During the past 24 months the largest percentage growth in contractual adjustments has been in the Puget Sound, Southwest Washington, and Central Washington regions. Rates of increase were well below the statewide average for rural hospitals, while urban hospitals were slightly above the statewide average. There was no significant variation in contractual adjustment growth rates by organization type. Charity care advanced by 10.3% from the year ago total to a new high of \$206 million in the twelve month period ended September 30, 2003. However, charity care as a percentage of total patient service revenue was down slightly from the year earlier level..

<u>Contractual Adjustments</u>	<u>Twelve Months Ended</u>		<u>Change</u>	<u>Percent Change</u>
	<u>Sept 30, 2001</u>	<u>Sept 30, 2003</u>		
Statewide Total	\$5,210,767,814	\$7,656,486,030	\$2,445,718,216	46.9%
By Payer Group:				
Medicare	\$1,873,012,139	\$2,970,048,312	\$1,097,036,173	58.6%
Medicaid	\$803,723,558	\$1,264,890,411	\$461,166,853	57.4%
Other Payers	\$2,534,032,117	\$3,421,547,307	\$887,515,190	35.0%
By Region:				
King County	\$2,262,112,713	\$3,103,680,339	\$841,567,626	37.2%
Puget Sound	\$1,323,872,731	\$2,236,083,559	\$912,210,828	68.9%
Southwest Washington	\$541,295,400	\$822,008,478	\$280,713,078	51.9%
Central Washington	\$396,802,185	\$607,986,372	\$211,184,187	53.2%
Eastern Washington	\$686,684,785	\$886,727,282	\$200,042,497	29.1%
By Population Density:				
Frontier Rural	\$17,810,258	\$23,239,362	\$5,429,104	30.5%
Remote Rural	\$97,095,404	\$112,228,832	\$15,133,428	15.6%
Less Remote Rural	\$453,699,302	\$623,579,380	\$169,880,078	37.4%
Urban	\$4,642,162,850	\$6,897,438,456	\$2,255,275,606	48.6%
By Type of Ownership:				
District	\$561,150,189	\$801,064,726	\$239,914,537	42.8%
Not-for-Profit	\$4,015,730,744	\$5,979,579,969	\$1,963,849,225	48.9%
Proprietary	\$244,071,970	\$359,915,408	\$115,843,438	47.5%

Net Patient Service Revenue

Net patient service revenue is defined as the amount of revenue actually realized by hospitals. In the four quarter period ended September 30, 2003 net patient service revenue reached \$8.4 billion, which was an increase of \$743 million, or 9.7%, over the corresponding period a year ago. This was the smallest annual percentage increase in net patient service revenue since the twelve month period ended June 30, 2001. Net patient service revenue for payers other than Medicare and Medicaid, grew by 14.3%, which was the greatest increase for this group since calendar year 1992.

Operating Expenses

Operating expenses are the costs of providing health care services to hospital patients. In the twelve month period ended September 30, 2003 operating expenses totaled \$8.1 billion, which was an increase of \$669 million, or 9.0%, over the corresponding period a year ago. This was the smallest percentage increase in operating expenses since the four quarter period ended March 31, 2001. Increases in the volume of patient service utilization only account for an increase of 1.6% in operating expenses. The increase in operating expenses not related to patient volume is 7.2%. The volume adjusted increase substantially exceeds the 2.3% annual increase in the consumer price index for the same period, and is slightly above the 7.0% annual increase in the hospital services component of the index.

Net Operating Income

During the twelve month period ended September 30, 2003 net operating income advanced to another new high of \$299 million, which was 33.1% over the year ago level and 120.9% over the corresponding period two years ago. The increase was sufficient to pull net income per adjusted discharge up to \$321.30, which is the highest level recorded since calendar year 1990. Although most hospitals in Washington State are

operated by not-for-profit corporations or governmental entities such as public hospital districts, net operating income is an important source of funding for replacement of buildings and equipment as well as the acquisition of modern medical technology.

UTILIZATION INDICATORS

Discharges, Patient Days, and Length of Stay

Inpatient activity is primarily measured by discharges and patient days. Discharges from Washington hospitals continued to grow slowly, reaching a total of 517,991 discharges during the four quarter period ended September 30, 2003. This was a gain of 3,966 discharges, or 0.8%, over the corresponding year ago period. During the same interval patient days crept upward by 21,397 days, or 1.0%. Since calendar year 2000 inpatient days have grown slightly faster than inpatient admissions. As a result, average length of stay has crept upward to 4.35 days.

Adjusted Discharges

Adjusted discharges continued to advance; reaching a total of 932,093 adjusted discharges in the four quarter period ended September 30, 2003. This was an increase of 14,890 adjusted discharges, or 1.6%, over the four quarter period ended September 30, 2002. Adjusted discharges are utilized as an aggregate indicator of hospital activity. To calculate adjusted discharges, inpatient discharges are multiplied by the ratio of total patient service revenue to inpatient revenue (excluding skilled nursing facility revenue). With this adjustment, total patient service revenue per adjusted discharge is equal to inpatient revenue (excluding skilled nursing facility revenue) per inpatient discharge. Adjusted discharges are necessary for computing average rates, since total patient service revenue is the only financial indicator that can be split into inpatient and outpatient components.

OPERATING INDICATORS

Rates per Adjusted Discharge

Rates per adjusted discharge relate hospital financial indicators to the "average" patient. Total patient service revenue per adjusted discharge is the total bill for the average patient stay. Deductions from revenue per adjusted discharge is the portion of this average bill that is not paid by Medicare, Medicaid, or health insurers, or is written off as charity care. Net patient service revenue per adjusted discharge is the amount of revenue the hospital actually receives from the average patient visit. Operating expense per adjusted

discharge is the cost of providing services to the average patient. Net operating income per adjusted discharge is the amount of money the hospital is able to earn from the average patient visit. Rates per adjusted discharge for the twelve month periods ended September 30, 2002 and September 30, 2003, and the percentage changes were:

<u>Rate per Adjusted Discharge</u>	<u>FYE 9/30/02</u>	<u>FYE 9/30/03</u>	<u>Percent Change</u>
Total Patient Service Revenue per Adjusted Discharge	\$15,519.43	\$17,486.40	+12.7%
Deductions from Revenue per Adjusted Discharge	\$7,131.46	\$8,434.83	+18.3%
Net Patient Service Revenue per Adjusted Discharge	\$8,387.97	\$9,051.57	+7.9%
Operating Expenses per Adjusted Discharge	\$8,142.74	\$8,730.26	+7.2%
Net Operating Income per Adjusted Discharge	\$245.24	\$321.30	+31.0%

FINANCIAL RATIOS

Financial ratios are utilized to reflect the relationship between selected financial indicators. The financial ratios selected for this report are not all encompassing, but represent financial indicators that can be readily calculated from the data available through the quarterly reporting process as currently designed without requesting supplemental data from the reporting hospitals.

Days in Accounts Receivable

For the four quarter period ended September 30, 2003 accounts receivable averaged 67.2 days on a statewide basis. This was an increase of 7.4 days, or 12.4%, from the four quarter period ended June 30, 2003. By payer group average days in accounts receivable increased by 3.1 days for Medicare, 5.6 days for Medicaid, and 10.8 days for other payers from the levels in the previous twelve month period.

Operating Margin

Operating margin compares net operating income to total operating revenue. During the twelve month period ended September 30, 2002 operating margin was 3.35%, which was 20.7% greater than the year earlier period and was the highest achieved since the four quarter period ended June 30, 1998. Operating margin is a major source of funding for expansion and replacement as well as the acquisition of new medical technology.

Deductible Proportion

The deductible proportion compares total deductions from revenue to total patient service

revenue. For the four quarter period ended September 30, 2003 the deductible proportion reached 48.24%, which was an increase of 5.0% over the year earlier level. The deductible proportion has grown every quarter since the four quarter period ended March 31, 1996. At the current level, a hospital must bill \$1.96 to realize \$1.00 in net revenue.

Contractual Proportion

The contractual proportion compares total contractual adjustments with total patient service revenue. Correspondingly, the Medicare contractual, Medicaid contractual, and other contractual proportions are computed by comparing each payer group's contractual adjustments to the corresponding total patient service revenue for the same payer group. The total contractual proportion reached 47.0%, which was an increase of 1.0% and another new high, during the four quarter period ended September 30, 2003. The contractual proportion has grown every quarter since calendar year 1995. The Medicare contractual proportion of 53.6% and the Medicaid contractual proportion of 51.3% are well above the contractual proportion for other payers of 41.3%. By region the contractual proportion ranged from a high of 50.8% in Puget Sound to a low of 42.8% in Central Washington. The contractual proportion appears to expand with the urbanization of an area. Contractual proportions were 27.2% in frontier rural areas, 31.0% on remote rural areas, 41.5% in less remote rural areas, and 48.1% in urban areas. The contractual proportion is significantly less for district hospitals (38.8%) than for not-for-profit (49.3%) or proprietary facilities (54.5%).

<u>Contractual Proportion</u>	<u>Twelve Months Ended</u>		<u>Change</u>	<u>Percent Change</u>
	<u>Sept 30, 2001</u>	<u>Sept 30, 2003</u>		
Statewide Total	42.51%	46.98%	4.47%	10.5%
By Payer Group:				
Medicare	45.84%	53.63%	7.79%	17.0%
Medicaid	45.83%	51.25%	5.42%	11.8%
Other Payers	39.48%	41.26%	1.78%	4.5%
By Region:				
King County	42.23%	45.01%	2.79%	6.6%
Puget Sound	43.94%	50.83%	6.88%	15.7%
Southwest Washington	41.19%	47.20%	6.00%	14.6%
Central Washington	37.89%	42.85%	4.96%	13.1%
Eastern Washington	44.97%	48.10%	3.13%	7.0%
By Population Density:				
Frontier Rural	26.10%	27.22%	1.12%	4.3%
Remote Rural	31.52%	31.02%	-0.50%	-1.6%
Less Remote Rural	38.15%	41.49%	3.34%	8.8%
Urban	43.41%	48.07%	4.65%	10.7%
By Type of Ownership:				
District	34.91%	38.84%	3.93%	11.3%
Not-for-Profit	44.82%	49.31%	4.49%	10.0%
Proprietary	49.84%	54.51%	4.67%	9.4%

Charity Care

Although total charity care increased, it did not increase as rapidly as total patient service revenue. Therefore, the charity proportion of 1.26% for the twelve month period ended September 30, 2002 was 3.6% below the year earlier level. There is no clear indication yet of the impact on charity care, if any, of the changes in the Medicaid program that were effective July 1, 2003.

Inpatient and Outpatient Revenue

The proportion of total revenue to inpatient revenue and the outpatient revenue percentage are alternate ways of looking at the relationship between inpatient and outpatient revenue. Between the annual periods ended September 30, 2002 and September 30, 2003, the outpatient revenue percentage increased from 43.4% to 44.0%, while the ratio of total revenue to inpatient revenue expanded from 1.77 to 1.79. While these ratios have risen by 1.4% and 1.1%, respectively, from

the year earlier level, they are slightly below the level for the annual period ended June 30, 2003.

Medicare and Medicaid Revenue

The primary payers of hospital bills are the Medicare and Medicaid programs. The Medicare and Medicaid revenue percentages indicate the proportion of total hospital business that these programs represent. In the twelve month period ended September 30, 2003 the Medicare percentage was 34.0% and the Medicaid percentage was 15.1%. After reaching a low of 12.9% in the four quarter period ended September 30, 1999 the Medicaid percentage recorded increases in each reporting period until the four quarter period ended June 30, 2003. The latest Medicaid percentage is 0.9% below that high point. With 49.1% of total patient service revenue, the Medicare and Medicaid programs have a major influence on the financial health of hospitals.

hospTRENDS
Washington State
Hospital Financial and Utilization Trend Update
Quarter Ended September 30, 2003

For additional information, comments, and suggestions, or to request extra copies of this report, please contact:

Center for Health Statistics
Hospital and Patient Data Systems
1102 South Quince Street
Post Office Box 47811
Olympia, WA 98504-7811
Telephone: (360) 236-4215
FAX: (360) 664-8579
Internet: tom.muller@doh.wa.gov

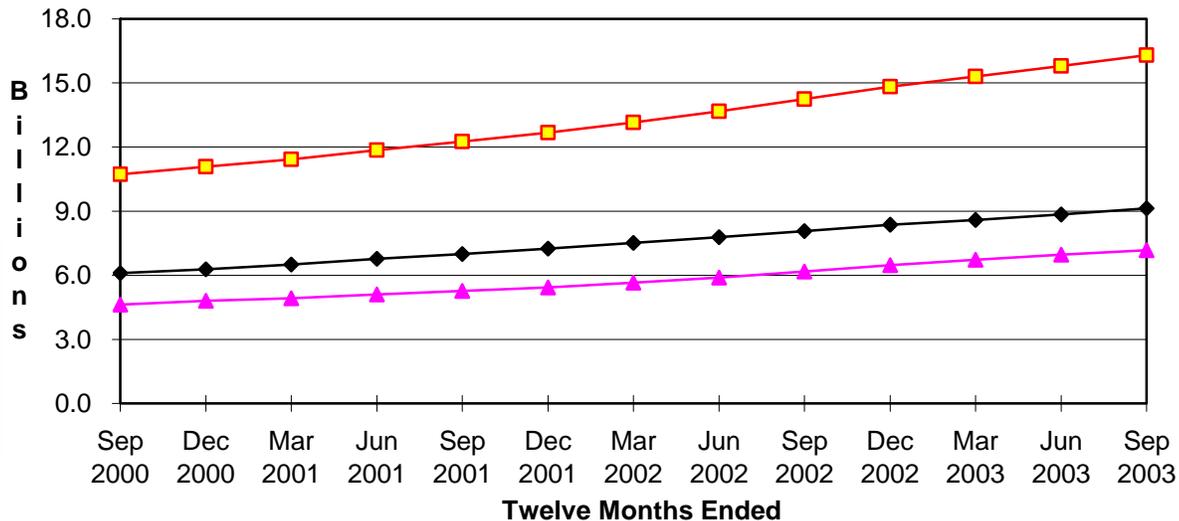
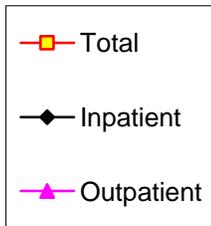
Mary Selecky, Secretary
Department of Health

Jude Van Buren, Acting Assistant Secretary
Epidemiology, Health Statistics, and Public Health Laboratories

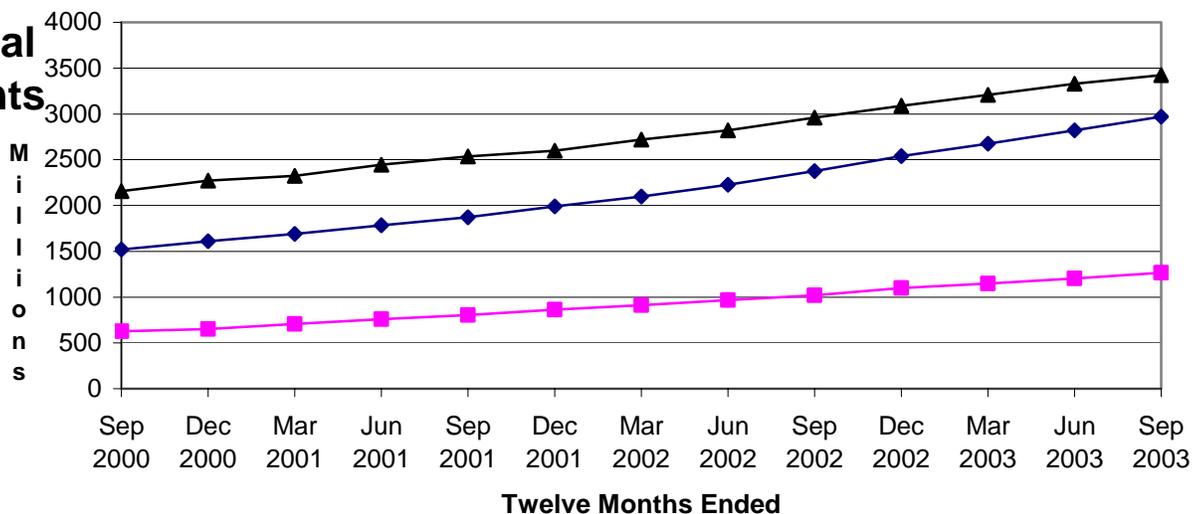
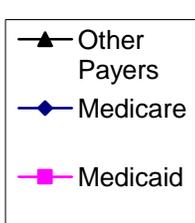
Teresa Jennings, State Registrar and Director
Center for Health Statistics

Authors: Thomas Muller and Richard Ordos

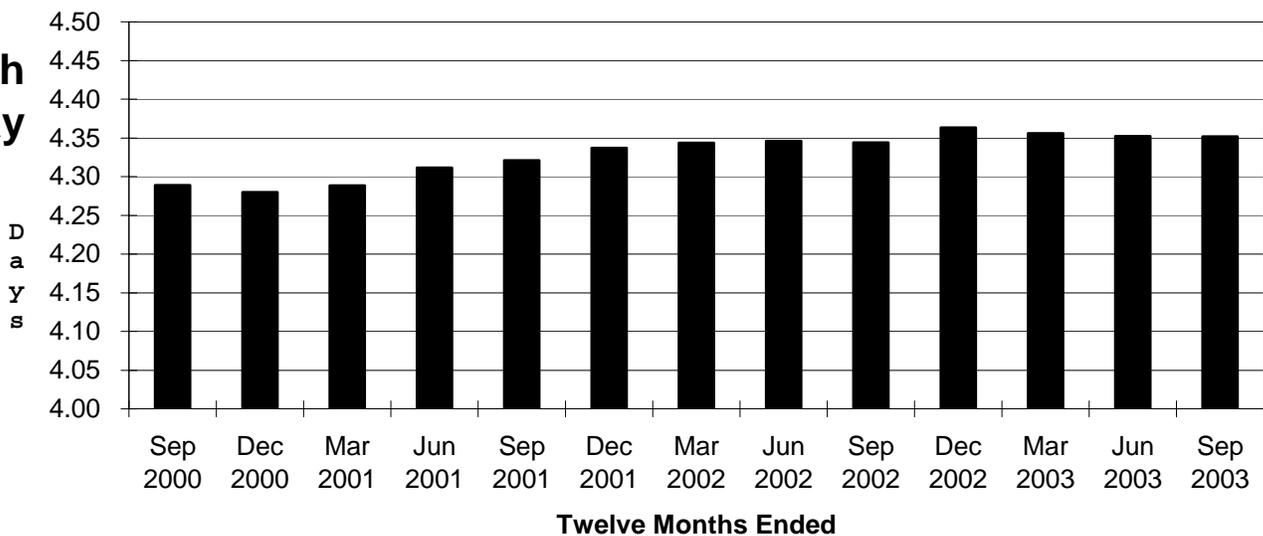
Total Patient Service Revenue

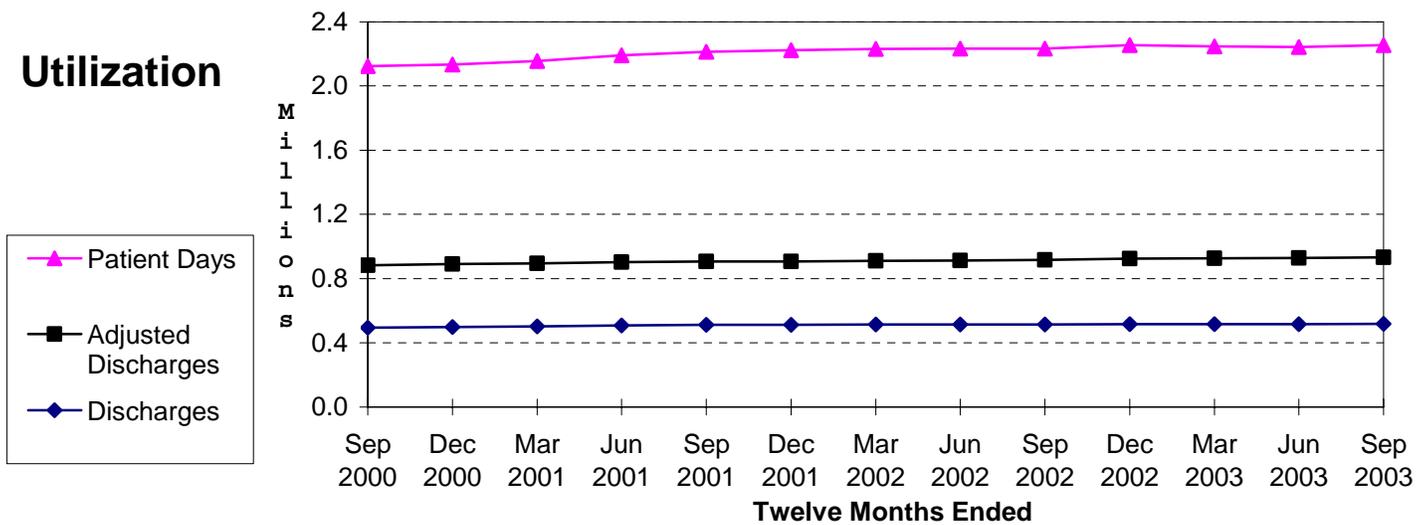
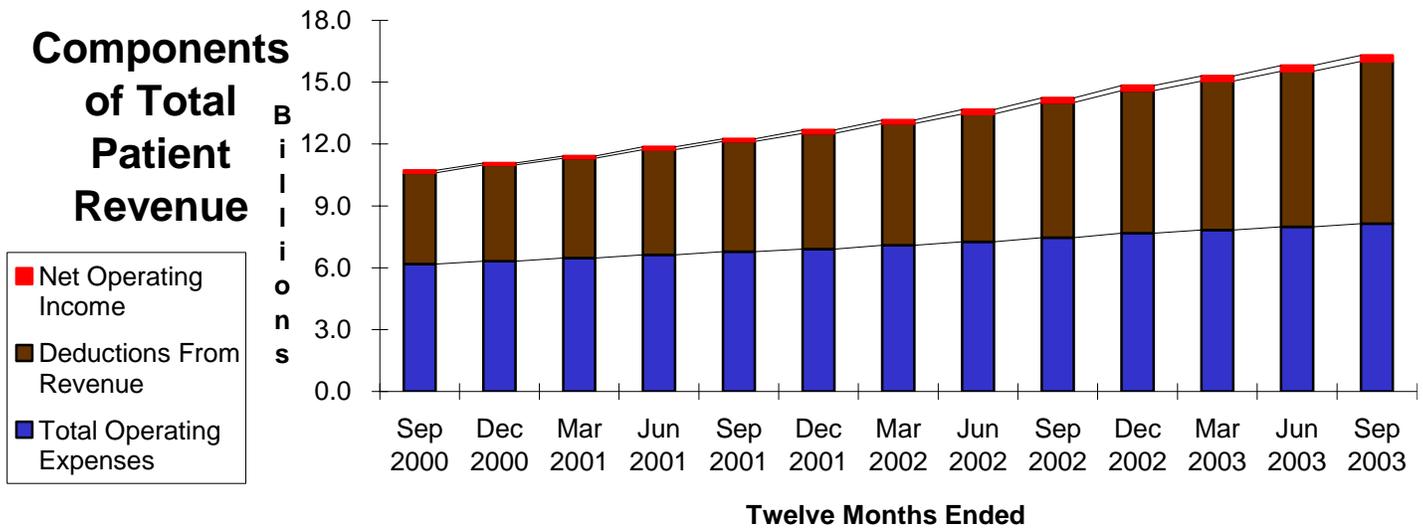
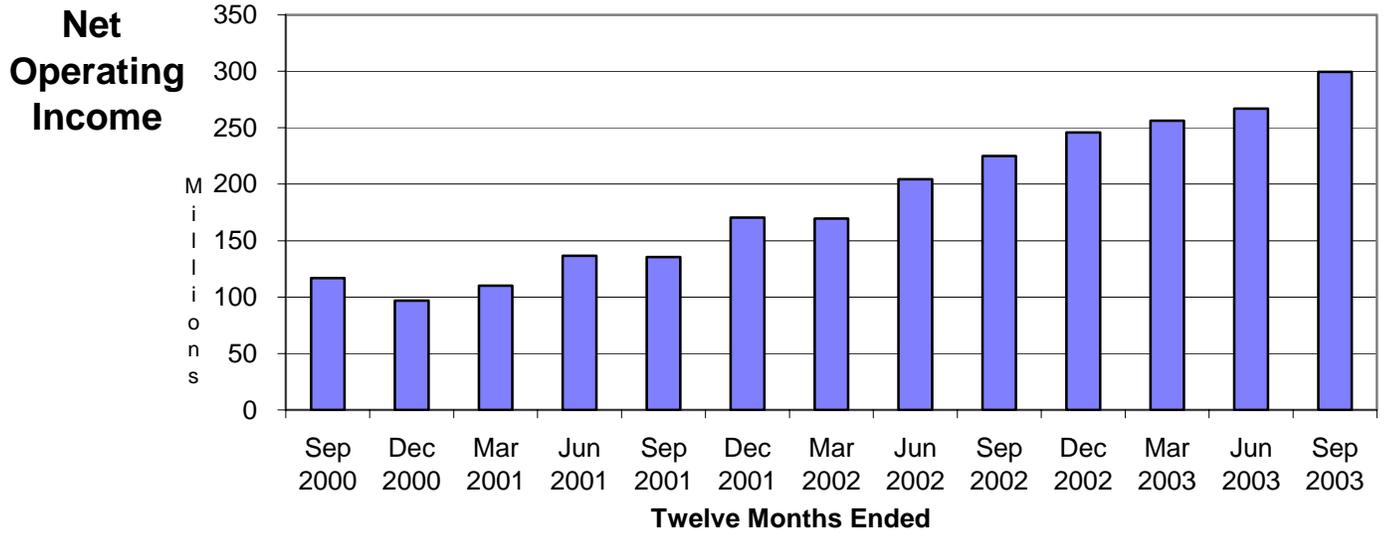


Contractual Adjustments

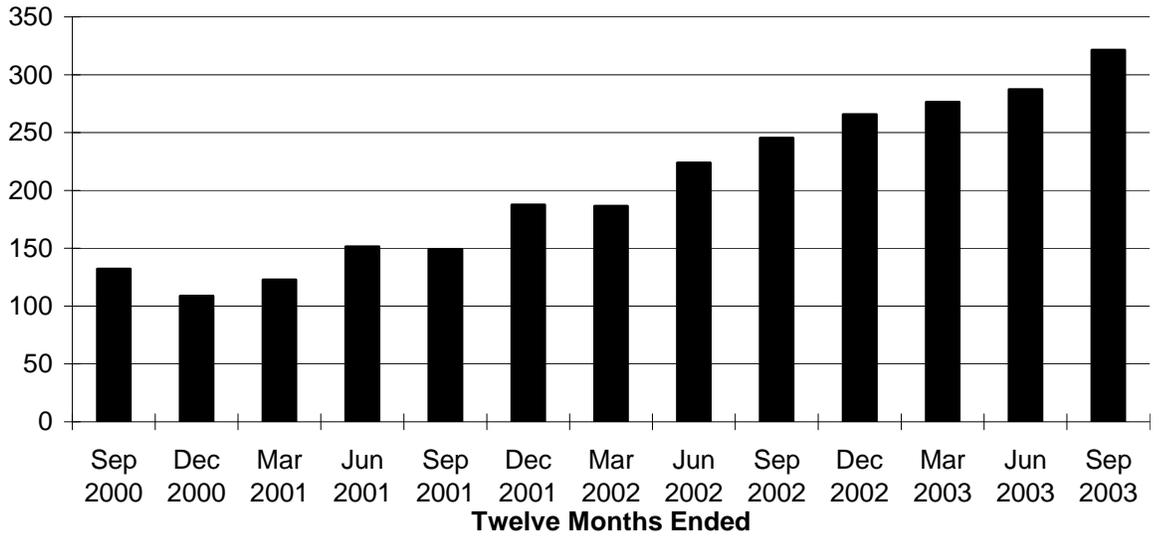


Length of Stay

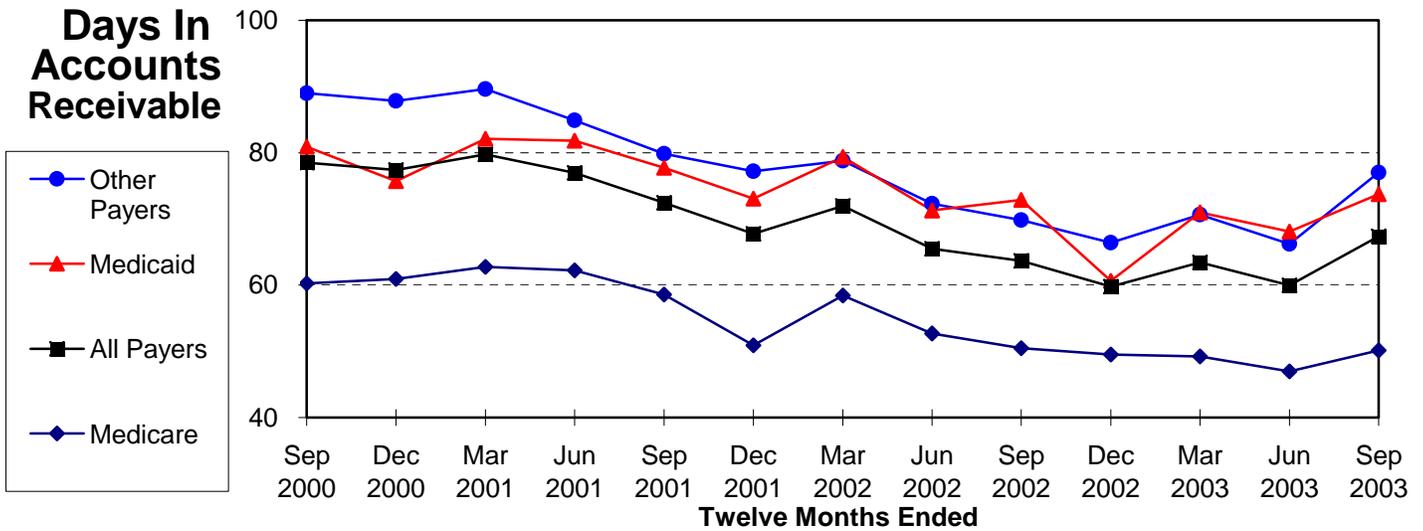




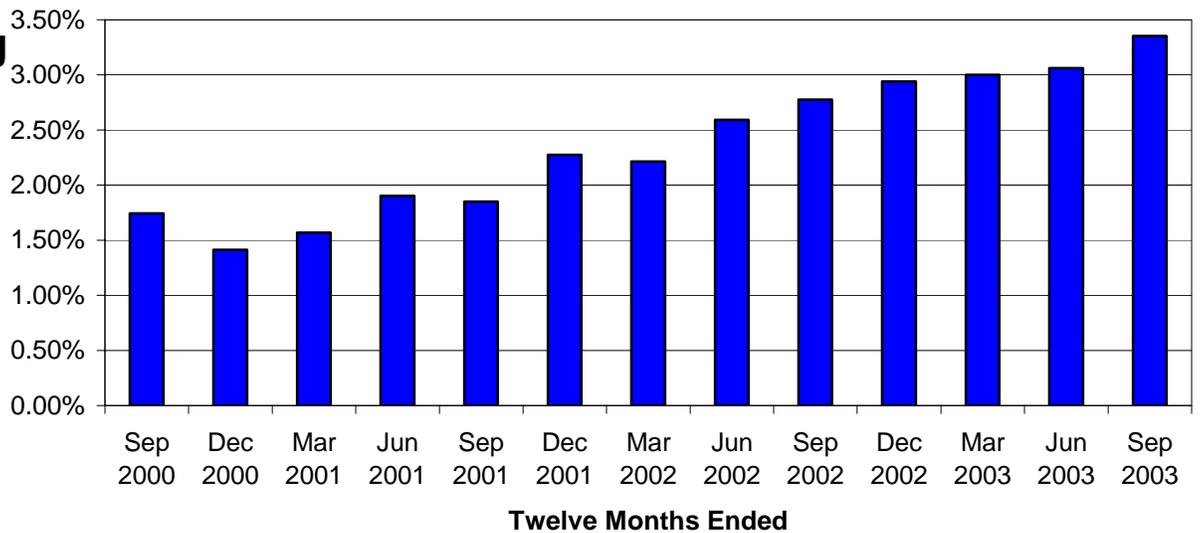
Net Income Per Adjusted Discharge

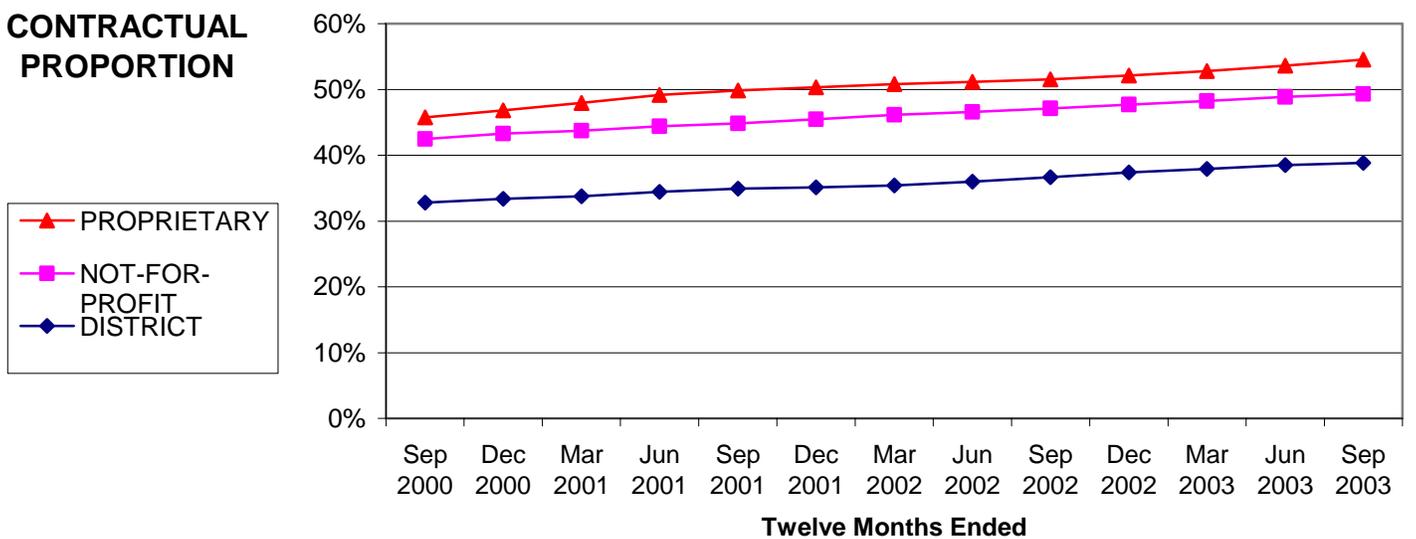
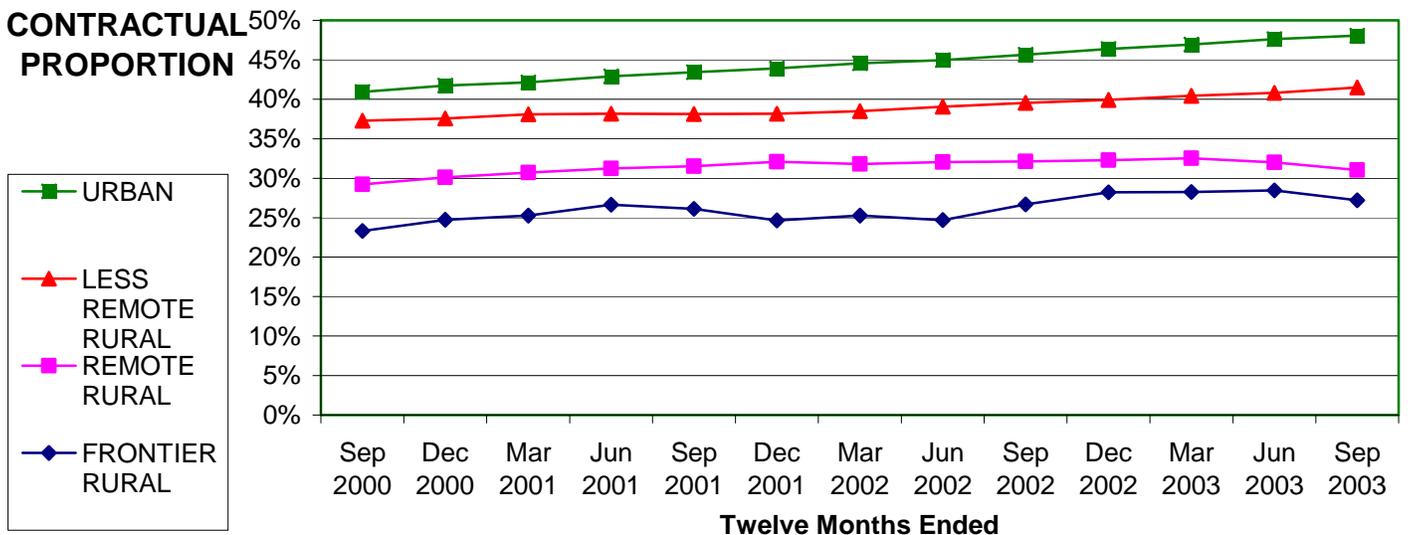
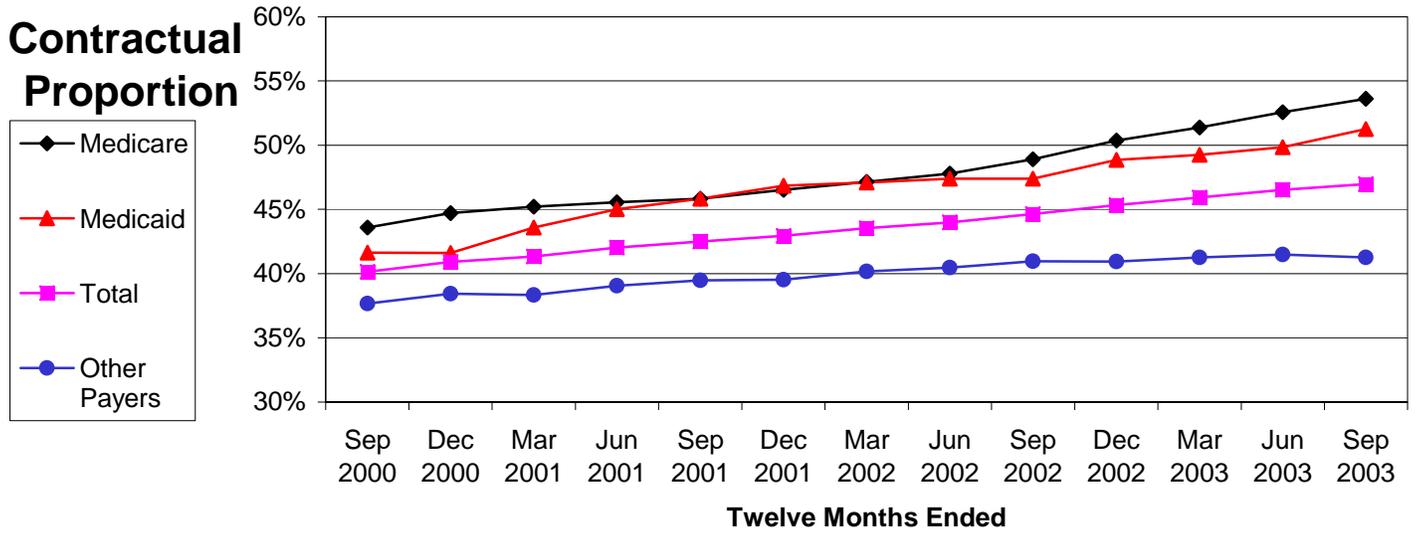


Days In Accounts Receivable

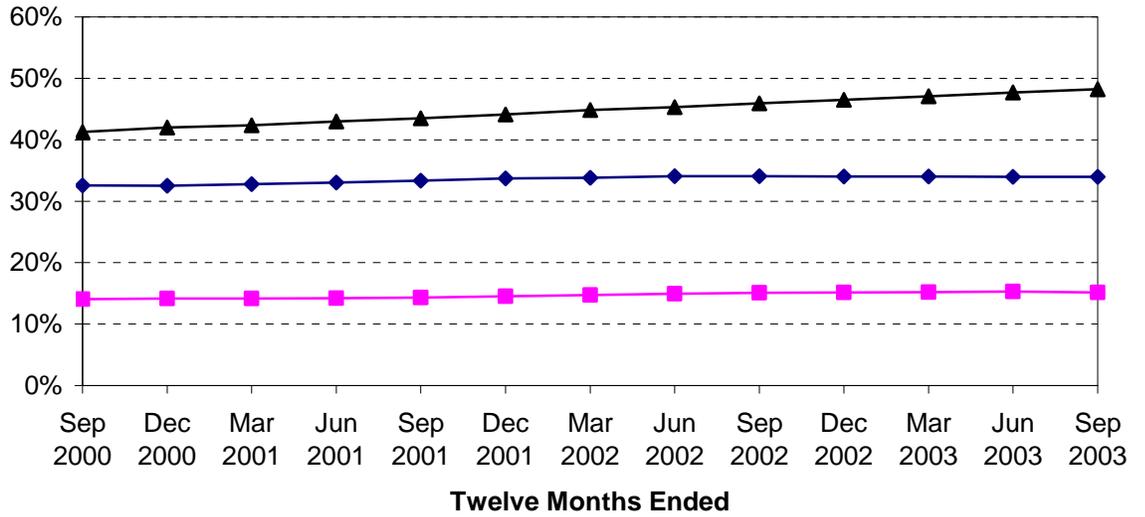
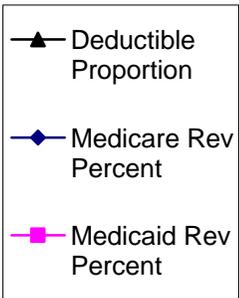


Operating Margin

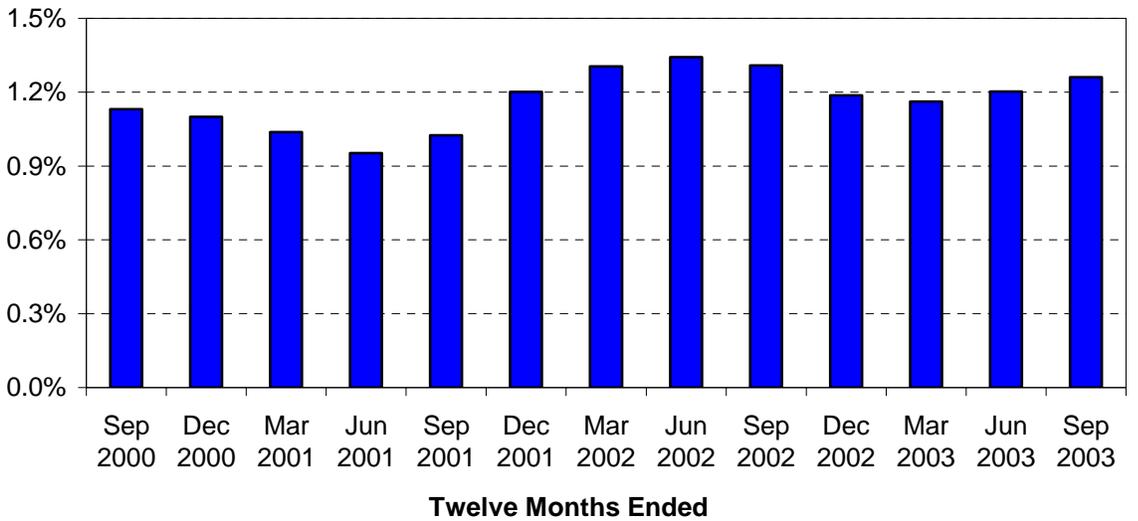




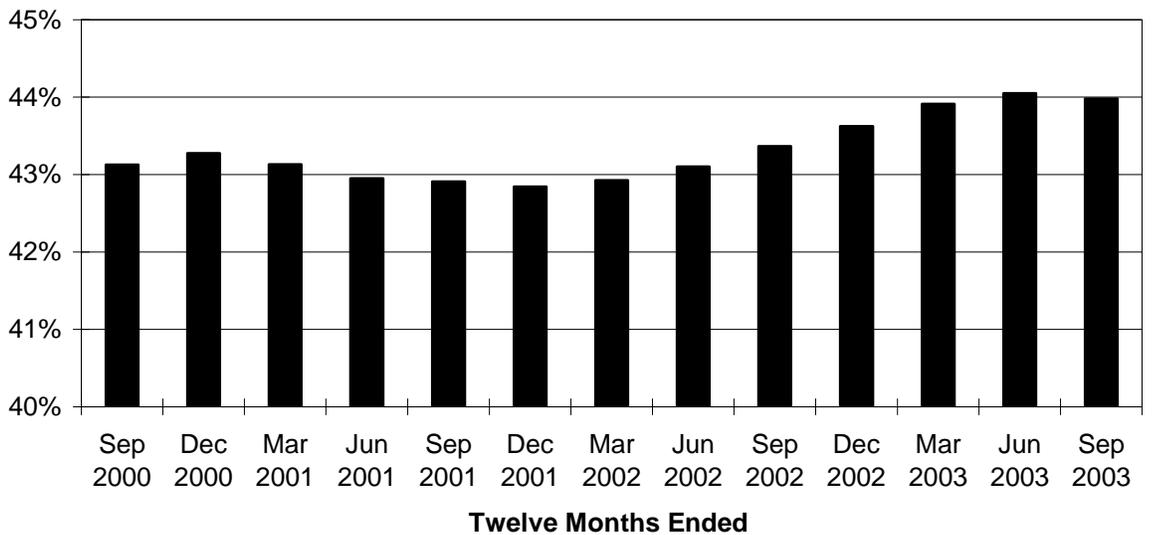
Financial Ratios



Charity Proportion



Percent Outpatient Revenue



HOSPITAL PERFORMANCE STATEWIDE	Twelve Months Ended Sep 30, 2002	Twelve Months Ended Sep 30 2003	Total Change	Percent Change
Total Patient Revenue				
Inpatient	8,061,733,647	9,130,920,663	1,069,187,016	13.26%
Outpatient	6,172,736,729	7,168,028,263	995,291,534	16.12%
Total	14,234,470,376	16,298,948,926	2,064,478,550	14.50%
Medicare	4,853,453,647	5,538,415,000	684,961,353	14.11%
Medicaid	2,151,026,934	2,467,865,719	316,838,785	14.73%
Other	7,229,989,795	8,292,668,207	1,062,678,412	14.70%
Deductions From Revenue				
Contractual Adjustments				
Medicare	2,374,160,375	2,970,048,312	595,887,937	25.10%
Medicaid	1,019,432,924	1,264,890,411	245,457,487	24.08%
Other	2,961,101,992	3,421,547,307	460,445,315	15.55%
Total	6,354,695,291	7,656,486,030	1,301,790,739	20.49%
Charity	186,299,406	205,560,332	19,260,926	10.34%
Total	6,540,994,697	7,862,046,362	1,321,051,665	20.20%
Net Patient Revenue				
Medicare	2,479,293,272	2,568,366,688	89,073,416	3.59%
Medicaid	1,131,594,010	1,202,975,308	71,381,298	6.31%
Other	4,082,588,397	4,665,560,568	582,972,171	14.28%
Total	7,693,475,679	8,436,902,564	743,426,885	9.66%
Total Operating Expenses	7,468,542,673	8,137,418,546	668,875,873	8.96%
Net Operating Income	224,933,006	299,484,018	74,551,012	33.14%
Days in Accounts Receivable				
Medicare	50.4	50.0	-0.4	-0.70%
Medicaid	72.7	73.5	0.9	1.21%
Other Payers	69.6	76.8	7.2	10.32%
Statewide Total	63.5	67.2	3.7	5.81%
Utilization				
Discharges	514,025	517,991	3,966	0.77%
Patient Days	2,232,858	2,254,255	21,397	0.96%
Length of Stay	4.34	4.35	0.01	0.19%
Adjusted Discharges	917,203	932,093	14,890	1.62%
Rates				
Tot Rev Per Adj Disch	15,519.43	17,486.40	1,966.96	12.67%
Deductions Per Adj Disch	7,131.46	8,434.83	1,303.37	18.28%
Net Revenue Per Adj Disch	8,387.97	9,051.57	663.59	7.91%
Oper Expense Per Adj Disch	8,142.74	8,730.26	587.53	7.22%
Net Income Per Adj Disch	245.24	321.30	76.06	31.02%
Financial Ratios				
Operating Margin	2.78%	3.35%	0.58%	20.74%
Deductible Proportion	45.95%	48.24%	2.28%	4.97%
Contractual Proportion - Total	44.64%	46.98%	2.33%	5.22%
Contractual Proportion - Medicare	48.92%	53.63%	4.71%	9.63%
Contractual Proportion - Medicaid	47.39%	51.25%	3.86%	8.15%
Contractual Proportion - Other	40.96%	41.26%	0.30%	0.74%
Charity Proportion	1.31%	1.26%	-0.05%	-3.64%
Total Rev/Inpat Rev	1.77	1.79	0.02	1.10%
Outpat Rev Percent	43.36%	43.98%	0.61%	1.42%
Medicare Rev Percent	34.10%	33.98%	-0.12%	-0.34%
Medicaid Rev Percent	15.11%	15.14%	0.03%	0.20%