

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 4 of this issue.

PREFACE

All licensed hospitals in the State of Washington submit summary financial and utilization data to the Department of Health following each calendar quarter. Reported data are edited, summarized, and analyzed by Hospital and Patient Data Systems 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 provision of information describing emerging hospital utilization and financial trends to all concerned parties is the primary purpose of this series of reports.

Instead of focusing on individual calendar 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.

Since the period covered by this report ends with the last quarter of the calendar year, the report provides a preliminary look at 2003 calendar year results. However, it must be emphasized that this first glimpse is subject to change. The quarterly reports submitted by hospitals contain interim data which have not 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 substantial additional detail, which allows analysis of the information provided in greater depth.

The last quarter of the calendar year provides an opportunity for a shift in the emphasis of the report. Instead of the 12 most recent four quarter periods, this report will focus on the past ten calendar years.

SUMMARY

Since calendar year 1993 total patient service revenue has increased by 194.1%, which is a compound rate of increase of 11.4% per year. Over this time period outpatient revenue grew much more rapidly (14.7% per year compounded) than inpatient revenue (9.4% per year compounded). As a result, outpatient revenue expanded from 32.7% of total patient service revenue in calendar year 1993 to 43.7% of total patient service revenue in calendar year 2003.

Contractual adjustments in calendar year 2003 jumped 434% over the calendar year 1993 level. This is an annual compound growth rate of 18.2% per year since calendar year 1993. Charity care reached a new high of \$240 million. This resulted in a charity care proportion of 1.43%, which was the highest recorded since the twelve month period ended September 30, 1999, but was still 28.7% below the charity care proportion of 2.00% realized in calendar year 1993.

Net operating income in calendar year 2003 jumped 39.7% over calendar year 2002 to \$344 million. This was the highest level of net operating income ever recorded for any annual period since hospital financial records have been maintained by the Department of Health or the Washington State Hospital Commission. It is more than 3.5 times the low of \$97 million reached in calendar year 2000. This net operating income resulted in an operating margin of 3.76%, which was the highest realized since the twelve month period ended March 31, 1998. Net income per adjusted admission of \$368.70 was also a new record high.

Since calendar year 1993 inpatient discharges have grown by 13.8%, while patient days have inched up 4.9%, resulting in a 7.9% drop in average length of stay. As a result of the significant growth in the proportion of

outpatient revenue over the period, adjusted discharges expanded by 35.4%.

In calendar year 2003 average days in accounts receivable jumped 15.1% over the previous year to 68.6 days. Average days in accounts receivable were up for all payer groups.

FINANCIAL INDICATORS

Total Patient Service Revenue

During calendar year 2003 total patient service revenue, which is the sum of billed charges for all hospital services, jumped by \$2.0 billion to \$16.8 billion, which was an increase of 13.5%. This was less than any annual percentage increase in total patient service revenue since the four quarter period ended June 30, 1999. Over the past ten calendar years, total patient service revenue has grown 194%, which is an average compound rate of increase of 11.4% per year. Since calendar year 1993 inpatient revenue has grown at an annual compound rate of 9.4%, while outpatient revenue has grown at an annual compound rate of 14.7%. However, during the past year there was no significant difference in the growth rates of inpatient revenue and outpatient revenue. Compound annual growth rates since 1993 by payer group were 10.9% for Medicare, 9.4% for Medicaid, and 12.4% for other payers. During the past year there were no significant differences in growth rates by payer group.

Deductions from Revenue

Hospitals do not realize all of the billed charges represented by total patient service revenue. The difference is known as deductions from revenue. In calendar year 2003 deductions from revenue advanced by \$1.3 billion, or 19.1%, to \$8.2 billion. Contractual adjustments, which are the primary component of deductions from revenue, grew by 18.6% to \$8.0 billion. Contractual adjustments have expanded 434% over the calendar year 1993 level, which reflects an annual compound growth rate of 18.2%. During the past year increases in contractual adjustments were 22.9% for Medicare, 18.7% for Medicaid, and 14.9% for other payers. Since calendar year 1993 contractual adjustments have jumped 361% for Medicare, 217% for Medicaid, and 790% for other payers, which are annual compound growth rates of 16.5%, 12.2%, and 24.4%, respectively. The substantial growth of contractual adjustments for other payers reflected a major growth in negotiated rate contracts with major health insurers, managed care plans, HMO's, and other contractual payers. Contractual adjustments for Medicare and Medicaid reflect the difference between billed charges and amounts allowed by these programs. During calendar year 2003 charity care reached a new high of \$240 million, which was the highest level recorded for any annual period since hospital financial records have been maintained by the Department of Health or the Washington State Hospital Commission. This

resulted in a charity care proportion of 1.43%, which was the highest recorded since the twelve month period ended September 30, 1999, but was still 28.7% below the charity care proportion of 2.00% realized in calendar year 1993.

Net Patient Service Revenue

Increasing by 8.7%, net patient service revenue reached \$8.6 billion in calendar year 2003. Net patient service revenue grew by 5.4% for Medicare, 6.8% for Medicaid, and 11.1% for other payers over the year ago level. Growth rates from calendar year 1993 for net patient service revenue were 92% for Medicare, 97% for Medicaid, and 124% for other payers, resulting in annualized growth rates range of 6.7%, 7.0%, and 8.4% per year, respectively. Net patient service revenue is defined as the amount of revenue actually realized by hospitals.

Operating Expenses

Operating expenses are the costs of providing health care services to hospital patients. During calendar year 2003 operating expenses totaled \$8.3 billion, which was an increase of 7.7% over the previous year. This is the smallest increase in operating expenses realized since the twelve month period ended March 31, 1999. Since aggregate patient volume, as measured by adjusted discharges, grew by 0.7% over the calendar year 2002 level, the increase in operating expenses not related to patient volume was 6.9%. This substantially exceeded the 1.9% increase in the overall consumer price index and was slightly over the 6.4% increase in the hospital services component of the index. Over the past ten years operating expenses have grown by 108%, which is an annual compound growth rate of 7.6%.

Net Operating Income

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 still necessary to provide the funds needed for replacement of buildings and equipment as well as the acquisition of modern medical technology. During calendar year 2003 Washington hospitals generated \$344 million of net operating income, which was a jump of 39.7% over calendar year 2002. This was the highest level of net operating income ever recorded for any annual period since hospital financial records have been maintained by the Department of Health or the Washington State Hospital Commission. It is more than 3.5 times the low of \$97 million reached in calendar year 2000. Net operating income in calendar year 2003 was 161% over calendar year 1993, reflecting an average long term compound growth rate of 10.1% per year. Net income per adjusted admission of \$368.70 was also a new record high.

UTILIZATION INDICATORS

Discharges, Patient Days, and Length of Stay

Inpatient activity is measured primarily by discharges and patient days. In calendar year 2003 a total of 520,464 patients were discharged from Washington hospitals. This was 0.7% more than calendar year 2002, 16.1% more than the ten year low point in calendar year 1994, and 13.8% more than calendar year 1993. These patients stayed for a combined total of 2,270,826 days, which was an increase of 0.7% over calendar year 2002, 16.6% over the ten year low point in the four quarter period ended September 30, 1996, and 4.9% over calendar year 1993. Average length of stay was 4.36 days, which was equal to calendar year 2002, 2.8% over the ten year low point in calendar year 1998, and 7.9% below the calendar year 1993 level of 4.74 days.

Adjusted Discharges

Adjusted discharges continued a steady climb that has endured since the twelve month period ended March 31, 1994. In calendar year 2003 adjusted discharges reached 932,271, which was an increase of 6,529 adjusted discharges, or 0.7%, over calendar year 2002 and 35.4% greater than calendar year 1993. 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 stay. Rates per adjusted discharge for calendar years 1993, 2002, and 2003 and the corresponding percentage changes were:

Rates per Adjusted Discharge

	<u>FYE 12/31/02</u>	<u>FYE 12/31/03</u>	<u>% Change</u>
Total Patient Service Revenue per Adjusted Discharge	\$16,019.57	\$18,057.78	+12.7%
Deductions from Revenue per Adjusted Discharge	\$7,454.35	\$8,812.85	+18.2%
Net Patient Service Revenue per Adjusted Discharge	\$8,565.22	\$9,244.93	+7.9%
Total Operating Expense per Adjusted Discharge	\$8,299.51	\$8,876.23	+6.9%
Net Operating Income per Adjusted Discharge	\$265.70	\$368.70	+38.8%

Rates per Adjusted Discharge

	<u>FYE 12/31/93</u>	<u>FYE 12/31/03</u>	<u>% Change</u>	<u>Annual % Chg</u>
Tot Pat Serv Rev per Adj Disch	\$8,313.17	\$18,057.78	+117.2%	+8.1%
Deduct from Rev per Adj Disch	\$2,335.27	\$8,812.85	+277.4%	+14.2%
Net Pat Serv Rev per Adj Disch	\$5,977.90	\$9,244.93	+54.7%	+4.5%
Tot Oper Exp per Adj Disch	\$5,786.53	\$8,876.23	+53.4%	+4.4%
Net Oper Income per Adj Disch	\$191.37	\$368.70	+92.7%	+6.8%

FINANCIAL RATIOS

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

Days in Accounts Receivable

Accounts receivable is the largest item in the current assets portion of the balance sheet for most hospitals. Days in accounts receivable is a measure of how "current" this asset is. In this report, days in accounts receivable is calculated on an annual gross basis. On a statewide basis days in accounts receivable averaged 68.6 days for calendar year 2003. This was an increase of 9.0 days, or 15.1%, from calendar year 2002

and was the largest annual increase recorded in over 10 years. Days in accounts receivable rose by 3.9 days (7.8%) for Medicare, 10.7 days (17.6%) for Medicaid, and 12.0 days (18.2%) for other payers. The increase of 18.2% for other payers was higher than any recorded in over 10 years.

Operating Margin

Operating margin compares net operating income to total operating revenue. During calendar year 2003 operating margin reached 3.76%, which was 27.7% greater than the year earlier period and was the highest achieved since the four quarter period ended March 31, 1998. Operating margin in calendar year 2003 was significantly above the 1.41% realized in calendar year 2000, but is still substantially below the high of 7.20% reached in the four quarter period ended June 30, 1990. 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 calendar year 2003 the deductible proportion reached 48.8%, which was an increase of 4.9% over the year earlier level. The deductible proportion has grown by 74% in ten years, which is a compound growth rate of 5.7% per year.

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 47.4%, which was an increase of 4.5% and another new high, during

calendar year 2003. In calendar year 1987 the contractual proportion was only 10.9%. The Medicare contractual proportion of 54.9% and the Medicaid contractual proportion of 51.8% are well above the contractual proportion for other payers of 41.0%. Each of these proportions was also a new high.

Charity Care

The charity proportion of 1.43% for calendar year 2003 was up 20.1% from the year earlier level and was the highest recorded since the four quarter period ended September 30, 1999. However, it has receded by 28.7% from the 2.00% level realized in calendar year 1993. Much of the recent growth in charity care can be attributed to changes implemented during the 2003 legislative session.

Inpatient and Outpatient Revenue

The relationship between inpatient and outpatient revenue is reflected in the proportion of total revenue to inpatient revenue and in the outpatient revenue percentage. The outpatient revenue percentage reached 43.7% and the ratio of total revenue to inpatient revenue was 1.78 in calendar year 2003. Since calendar year 1993 the outpatient revenue percentage has grown by 34%, which is a compound growth rate of 2.9% per year. However, this growth has slowed in recent years.

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 calendar year 2003 the Medicare percentage was 34.3%, and the Medicaid percentage was 15.0%. With 49.3% 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 December 31, 2003

For additional information, comments, and suggestions, or to receive future editions of this report, please contact:

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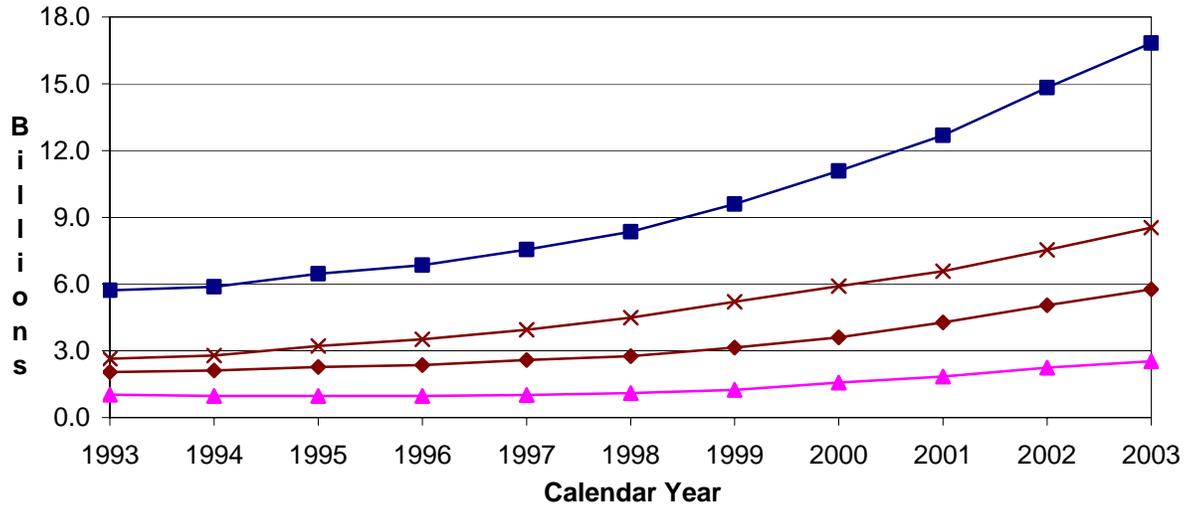
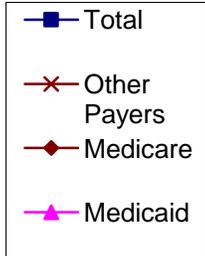
Epidemiology, Health Statistics, and Public Health Laboratories

Teresa Jennings, State Registrar and Director

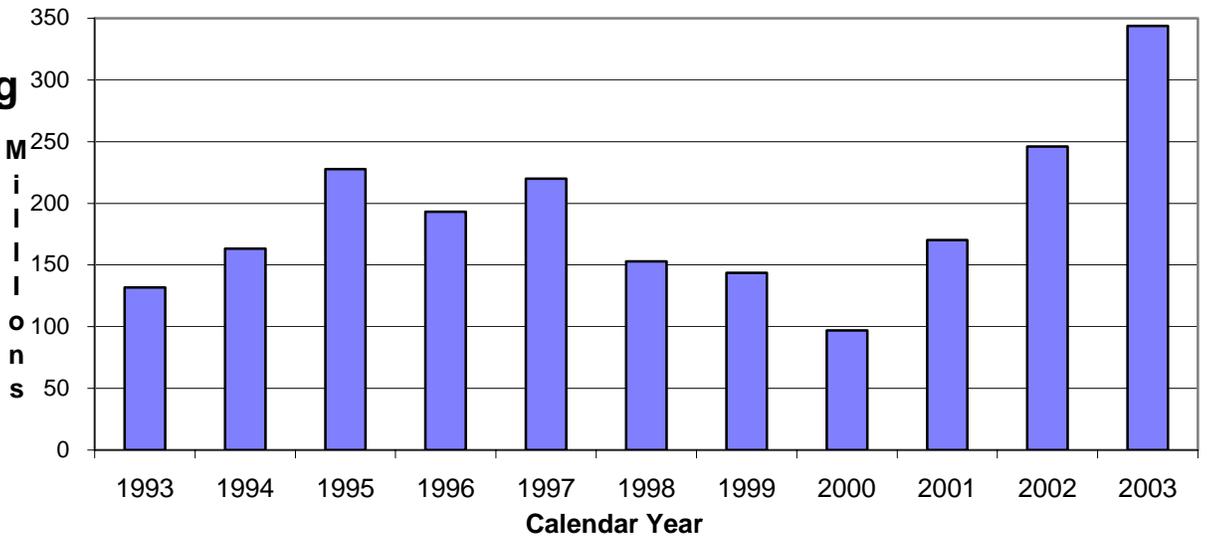
Center for Health Statistics

Authors: Thomas Muller and Richard Ordos

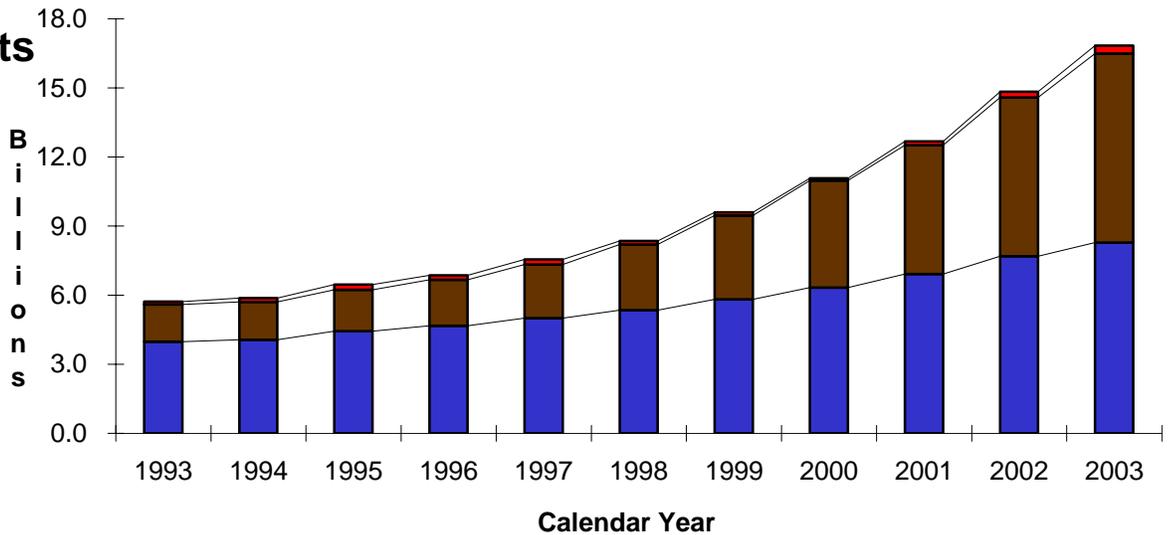
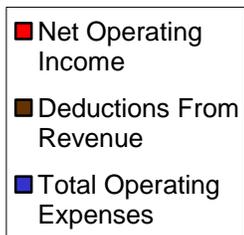
Total Patient Service Revenue

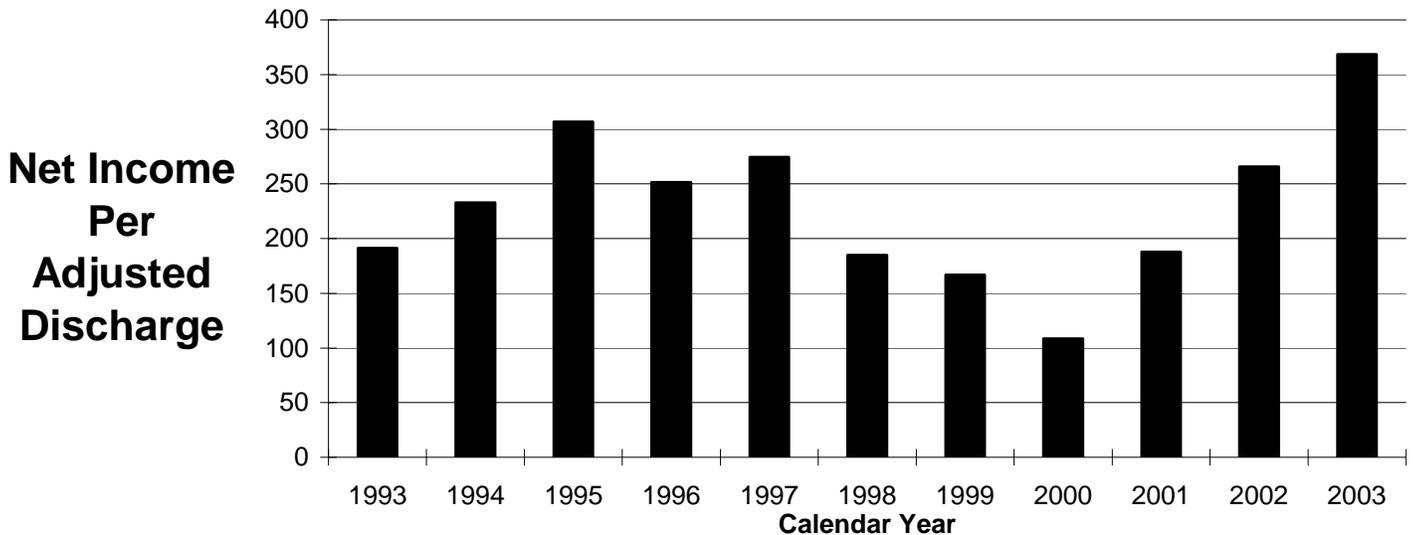
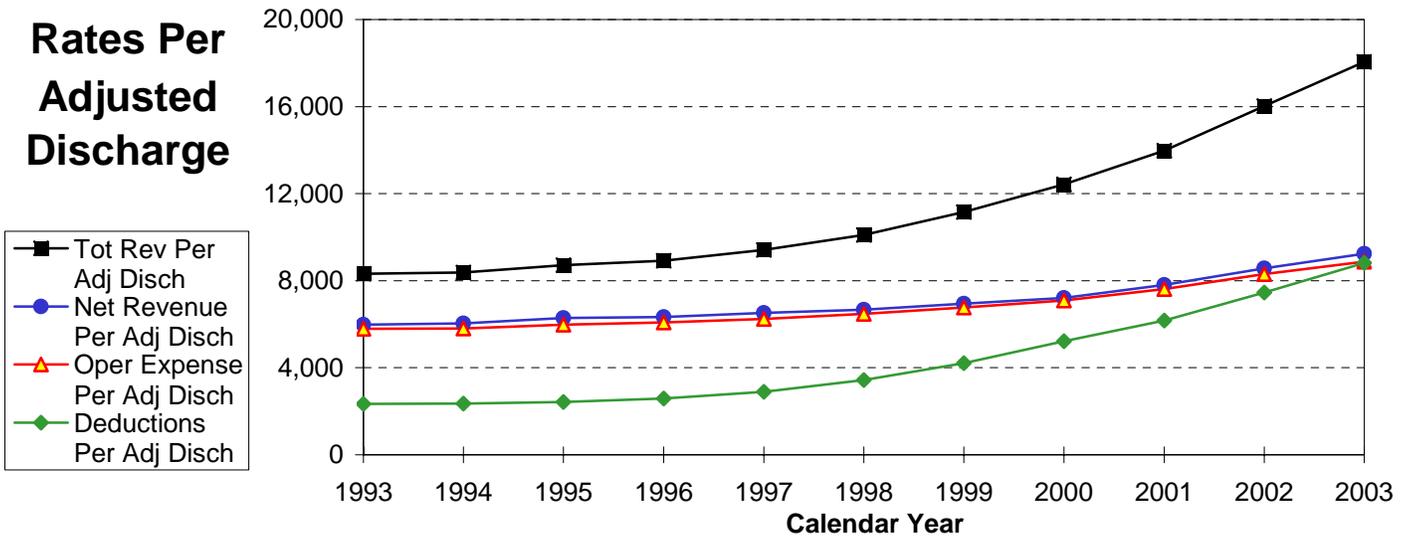
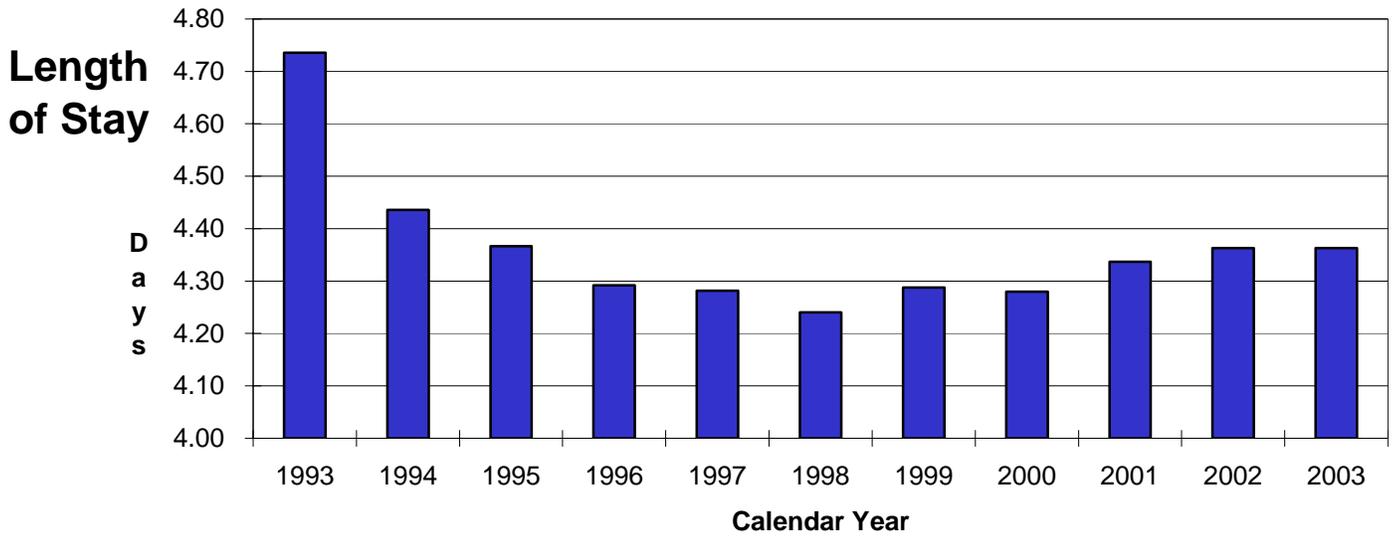


Net Operating Income

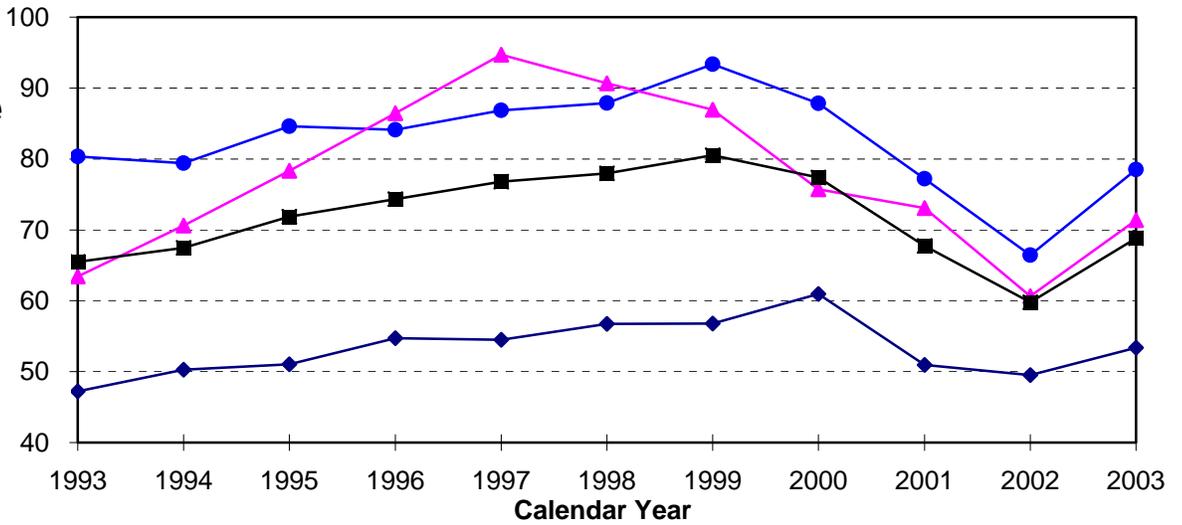
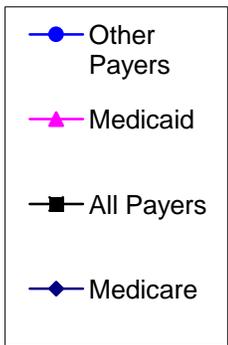


Components of Total Patient Service Revenue

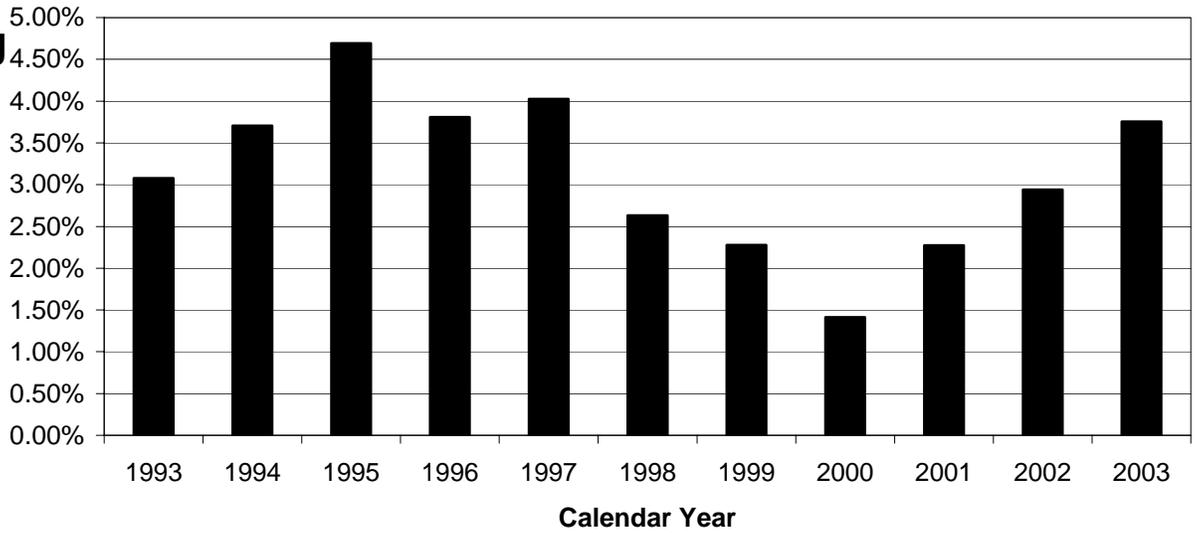




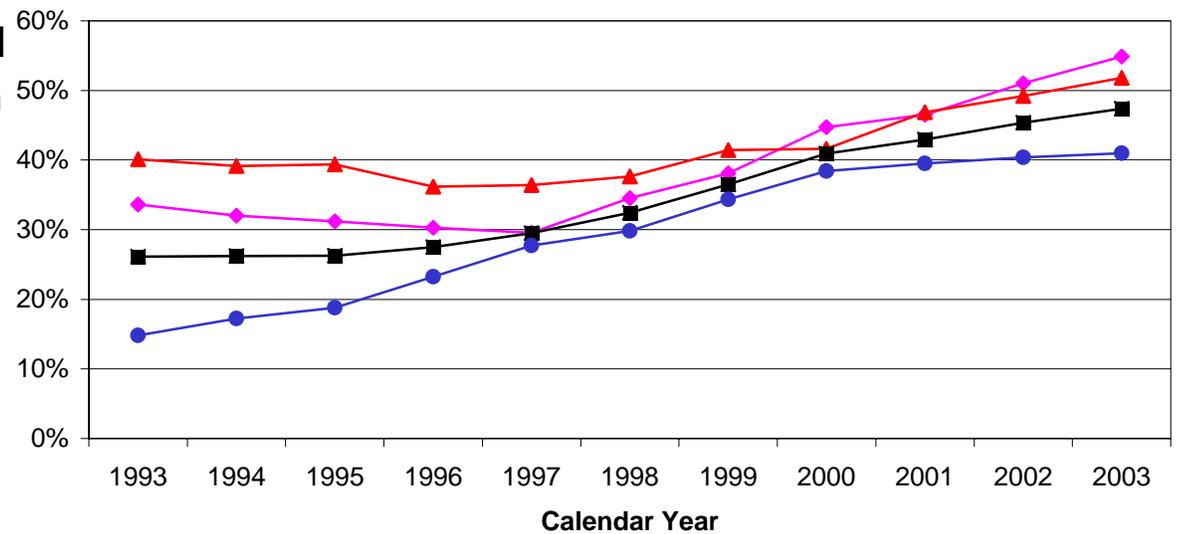
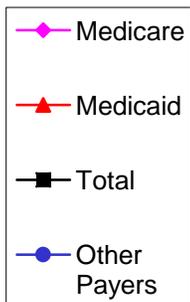
Days In Accounts Receivable



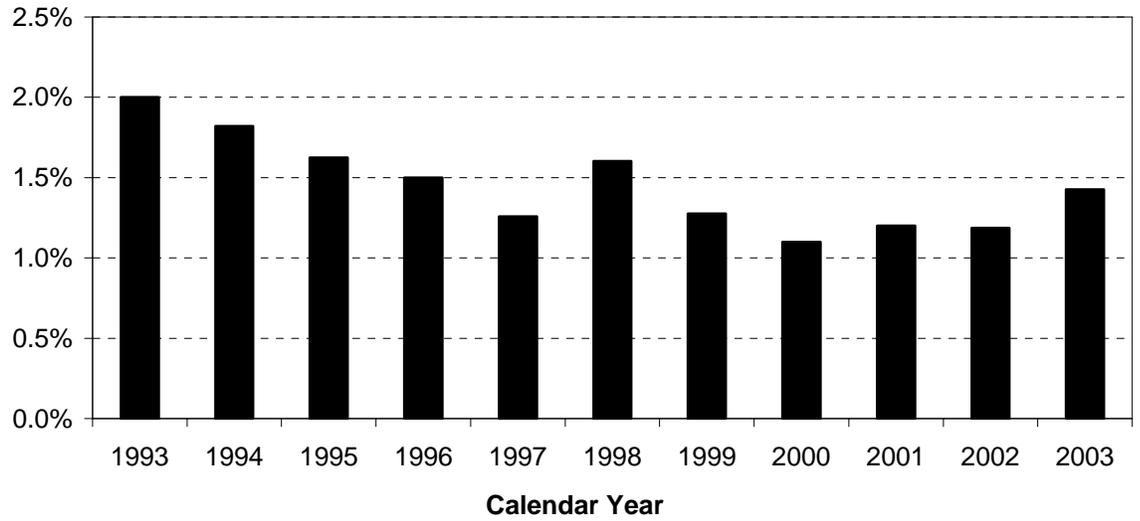
Operating Margin



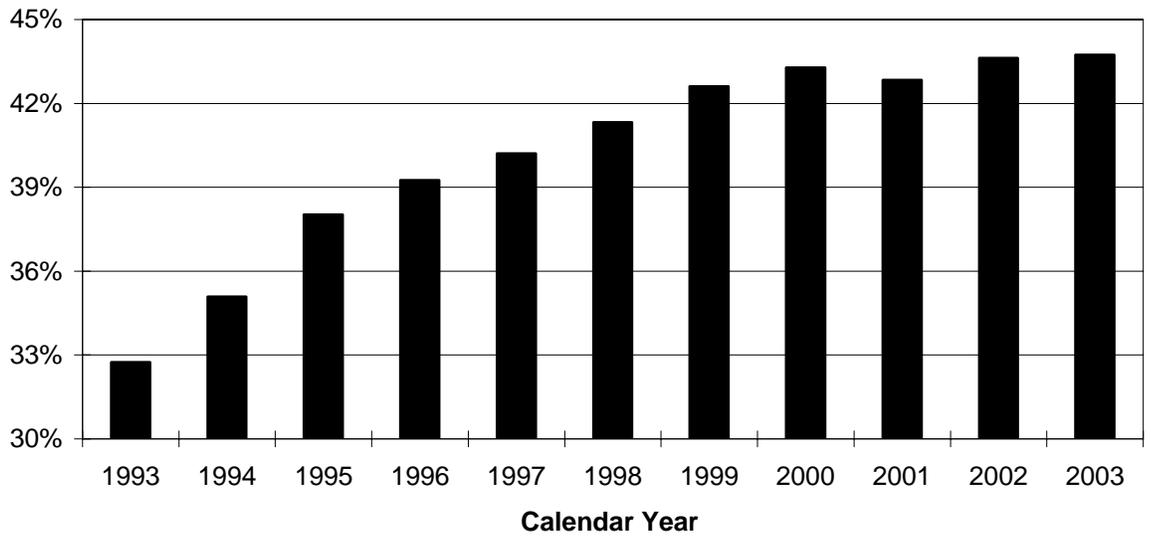
Contractual Proportion



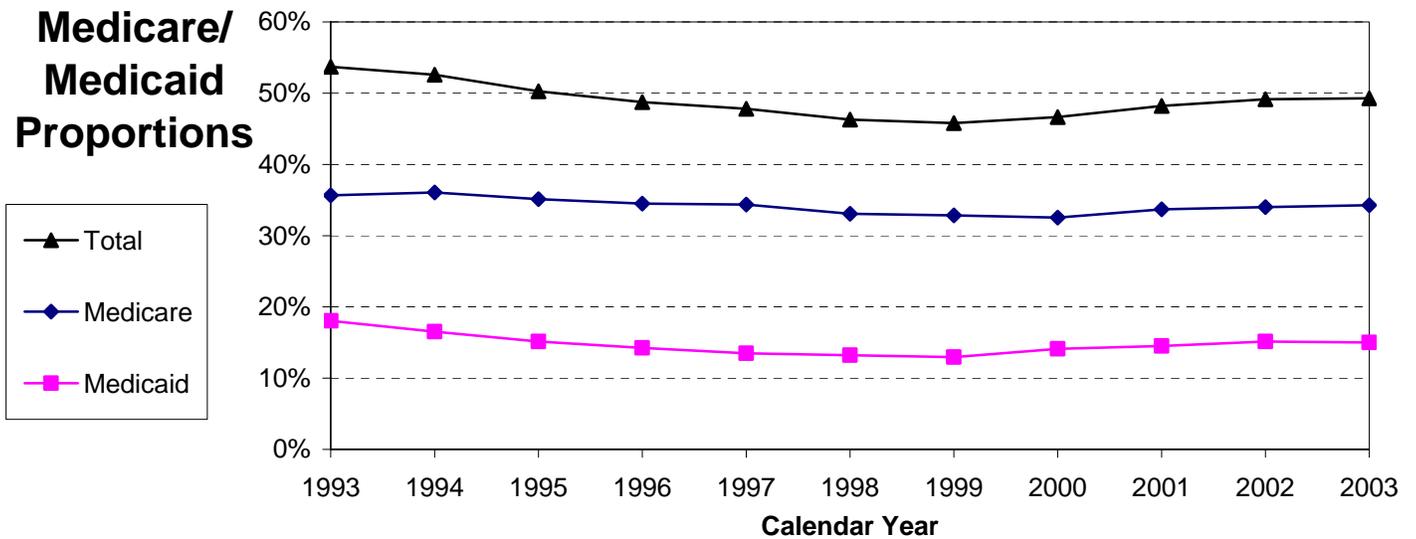
Charity Proportion



Percent Outpatient Revenue



Medicare/Medicaid Proportions



HOSPITAL PERFORMANCE	Calendar Year 2002	Calendar Year 2003	Total Change	Percent Change
Total Patient Revenue				
Inpatient	8,360,542,168	9,472,153,507	1,111,611,339	13.30%
Outpatient	6,469,444,195	7,362,593,902	893,149,707	13.81%
Total	14,829,986,363	16,834,747,409	2,004,761,046	13.52%
Medicare	5,042,962,833	5,765,516,593	722,553,760	14.33%
Medicaid	2,246,244,428	2,530,332,368	284,087,940	12.65%
Other	7,540,779,102	8,538,898,448	998,119,346	13.24%
Deductions From Revenue				
Contractual Adjustments				
Medicare	2,574,104,138	3,163,771,818	589,667,680	22.91%
Medicaid	1,104,881,388	1,311,356,723	206,475,335	18.69%
Other	3,045,754,010	3,500,622,262	454,868,252	14.93%
Total	6,724,739,536	7,975,750,803	1,251,011,267	18.60%
Charity	176,065,550	240,217,799	64,152,249	36.44%
Total	6,900,805,086	8,215,968,602	1,315,163,516	19.06%
Net Patient Revenue				
Medicare	2,468,858,695	2,601,744,775	132,886,080	5.38%
Medicaid	1,141,363,040	1,218,975,645	77,612,605	6.80%
Other	4,318,959,542	4,798,058,387	479,098,845	11.09%
Total	7,929,181,277	8,618,778,807	689,597,530	8.70%
Total Operating Expenses	7,683,208,470	8,275,047,993	591,839,523	7.70%
Net Operating Income	245,972,807	343,730,814	97,758,007	39.74%
Days in Accounts Receivable				
Medicare	49.4	53.2	3.9	7.83%
Medicaid	60.5	71.2	10.7	17.63%
Other Payers	66.2	78.3	12.0	18.17%
Statewide Total	59.6	68.6	9.0	15.09%
Utilization				
Discharges	516,881	520,464	3,583	0.69%
Patient Days	2,255,264	2,270,826	15,562	0.69%
Length of Stay	4.36	4.36	(0.00)	0.00%
Adjusted Discharges	925,742	932,271	6,529	0.71%
Rates				
Tot Rev Per Adj Disch	16,019.57	18,057.78	2,038.22	12.72%
Deductions Per Adj Disch	7,454.35	8,812.85	1,358.50	18.22%
Net Revenue Per Adj Disch	8,565.22	9,244.93	679.71	7.94%
Oper Expense Per Adj Disch	8,299.51	8,876.23	576.71	6.95%
Net Income Per Adj Disch	265.70	368.70	103.00	38.76%
Financial Ratios				
Operating Margin	2.94%	3.76%	0.82%	27.73%
Deductible Proportion	46.53%	48.80%	2.27%	4.88%
Contractual Proportion - Total	45.35%	47.38%	2.03%	4.48%
Contractual Proportion - Medicare	51.04%	54.87%	3.83%	7.50%
Contractual Proportion - Medicaid	49.19%	51.83%	2.64%	5.36%
Contractual Proportion - Other	40.39%	41.00%	0.61%	1.50%
Charity Proportion	1.19%	1.43%	0.24%	20.19%
Total Rev/Inpat Rev	1.77	1.78	0.00	0.20%
Output Rev Percent	43.62%	43.73%	0.11%	0.25%
Medicare Rev Percent	34.01%	34.25%	0.24%	0.71%
Medicaid Rev Percent	15.15%	15.03%	-0.12%	-0.77%

HOSPITAL PERFORMANCE	Calendar Year 1993	Calendar Year 2003	Ten Year Change Total	Ten Year Percent Change Total	Annualized
Total Patient Revenue					
Inpatient	3,850,377,757	9,472,153,507	5,621,775,750	146.01%	9.42%
Outpatient	1,874,352,767	7,362,593,902	5,488,241,135	292.81%	14.66%
Total	5,724,730,524	16,834,747,409	11,110,016,885	194.07%	11.39%
Medicare	2,040,777,336	5,765,516,593	3,724,739,257	182.52%	10.94%
Medicaid	1,032,669,730	2,530,332,368	1,497,662,638	145.03%	9.38%
Other	2,651,283,458	8,538,898,448	5,887,614,990	222.07%	12.41%
Deductions From Revenue					
Contractual Adjustments					
Medicare	685,957,778	3,163,771,818	2,477,814,040	361.22%	16.52%
Medicaid	414,320,440	1,311,356,723	897,036,283	216.51%	12.21%
Other	393,346,677	3,500,622,262	3,107,275,585	789.96%	24.43%
Total	1,493,624,895	7,975,750,803	6,482,125,908	433.99%	18.24%
Charity	114,519,947	240,217,799	125,697,852	109.76%	7.69%
Total	1,608,144,842	8,215,968,602	6,607,823,760	410.90%	17.72%
Net Patient Revenue					
Medicare	1,354,819,558	2,601,744,775	1,246,925,217	92.04%	6.74%
Medicaid	618,349,290	1,218,975,645	600,626,355	97.13%	7.02%
Other	2,143,416,834	4,798,058,387	2,654,641,553	123.85%	8.39%
Total	4,116,585,682	8,618,778,807	4,502,193,125	109.37%	7.67%
Total Operating Expenses	3,984,803,051	8,275,047,993	4,290,244,942	107.67%	7.58%
Net Operating Income	131,782,631	343,730,814	211,948,183	160.83%	10.06%
Days in Accounts Receivable					
Medicare	47.2	53.2	6.0	12.77%	1.21%
Medicaid	63.4	71.2	7.7	12.17%	1.15%
Other Payers	80.3	78.3	(2.1)	-2.58%	-0.26%
Statewide Total	65.5	68.6	3.1	4.80%	0.47%
Utilization					
Discharges	457,175	520,464	63,289	13.84%	1.30%
Patient Days	2,165,145	2,270,826	105,681	4.88%	0.48%
Length of Stay	4.74	4.36	(0.37)	-7.87%	-0.82%
Adjusted Discharges	688,634	932,271	243,637	35.38%	3.08%
Rates					
Tot Rev Per Adj Disch	8,313.17	18,057.78	9,744.61	117.22%	8.07%
Deductions Per Adj Disch	2,335.27	8,812.85	6,477.59	277.38%	14.20%
Net Revenue Per Adj Disch	5,977.90	9,244.93	3,267.03	54.65%	4.46%
Oper Expense Per Adj Disch	5,786.53	8,876.23	3,089.69	53.39%	4.37%
Net Income Per Adj Disch	191.37	368.70	177.33	92.67%	6.78%
Financial Ratios					
Operating Margin	3.08%	3.76%	0.68%	22.05%	2.01%
Deductible Proportion	28.09%	48.80%	20.71%	73.73%	5.68%
Contractual Proportion - Total	26.09%	47.38%	21.29%	81.58%	6.15%
Contractual Proportion - Medicare	33.61%	54.87%	21.26%	63.25%	5.02%
Contractual Proportion - Medicaid	40.12%	51.83%	11.70%	29.17%	2.59%
Contractual Proportion - Other	14.84%	41.00%	26.16%	176.33%	10.70%
Charity Proportion	2.00%	1.43%	-0.57%	-28.67%	-3.32%
Total Rev/Inpat Rev	1.49	1.78	0.29	19.54%	1.80%
Outpat Rev Percent	32.74%	43.73%	10.99%	33.58%	2.94%
Medicare Rev Percent	35.65%	34.25%	-1.40%	-3.93%	-0.40%
Medicaid Rev Percent	18.04%	15.03%	-3.01%	-16.68%	-1.81%