

## ANNOUNCEMENTS

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## 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 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 two calendar quarters of 2003 and the first two calendar quarters of 2004. It provides a mid-year view between the 2003 and 2004 calendar years.

However, it is important to remember that this preliminary view is subject to change. Since audits are normally performed on an annual basis, data submitted on a quarterly basis have not been subjected to the audit review process. The hospital's internal accounting system review and the formal procedures of outside auditors may result in changes to previously submitted data. Any revisions resulting from the audit process will be reflected in the hospital's year-end reports. In addition to reflecting audited data, year-end reports also provide substantially greater detail, allowing analysis of the information provided in greater depth.

## SUMMARY

The annual growth rates of 13.0% for total patient service revenue, 16.5% for contractual adjustments, and 8.4% for net patient services revenue were the lowest recorded since the twelve month periods ended March 31, 1999, March 31, 1997, and March 31, 2001, respectively.

The four quarter period ended June 30, 2004 saw jumps of 60.4% in bad debt and 73.5% in charity care, resulting in an overall growth rate of 66.0% for uncompensated care. Uncompensated care accounted for 4.1% of total billed charges, which is the highest rate since the twelve month period ended June 30, 1990.

The increase of 8.0% in total operating expenses per adjusted discharge is considerably higher than the 3.3% advance in the overall consumer price index and slightly above the 6.4% jump in the hospital services component of the index.

While net operating income rose by 20.4% over the year ago level, it was 6.5% below calendar year 2003.

Accounts receivable advanced to 66.3 days of revenue for the four quarter period ended June 30, 2004. Although days in accounts receivable were up by 3.6 days for Medicare and by 10.8 days for other payers, they were down by 0.7 days for Medicaid.

## FINANCIAL INDICATORS

### Total Patient Service Revenue

Total patient service revenue, which is the sum of billed charges for all hospital services, advanced by \$2.0 billion to \$17.8 billion, which was an increase of 13.0%. This was the smallest annual percentage increase in total patient services revenue since the twelve month period ended March 31, 1999. The growth rate of 10.7% for outpatient revenue was the smallest percentage increase recorded for this category since the four quarter period ended March 31, 1997. The increase of 11.1% for Medicaid revenue was also less than any recorded since the twelve month period ended March 31, 1999.

### Contractual Adjustments

For the twelve months ended June 30, 2004 contractual adjustments reached \$8.6 billion. The annual increase rate of 16.5% was less than any recorded since the four quarter period ended March 31, 1997. By payer group contractual adjustments were up by 25.3% for Medicare, 14.7% for Medicaid, and 9.6% for other payers. The growth rate for Medicaid was the lowest realized since the four quarter period ended June 30, 1999 and the growth rate for other payers was the lowest realized since calendar year 1985. 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.

### Uncompensated Care

Uncompensated care is composed of charity care and bad debt expense. While charity care is part of the deductions from revenue category and bad debt is part of the operating expense category, they are very similar. Each represents billed charges for hospital services that are not paid. Charity care represents charges that are not paid by patients who are **unable** to pay, while bad debt expense arises from charges that are not paid by patients who are **unwilling** to pay. While charity care is only 3.7% of deductions from revenue and bad debt expense is only 4.7% of operating expense, they have been growing very rapidly during the past year. Charity care has grown by 73.5% and bad debt has grown by 60.4%, for a total jump in uncompensated care of 66.0%. Over the past three years, charity care has leapt 192%

and bad debts have expanded by 80% for a total increase in uncompensated care of 117%.

### 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 June 30, 2004 net patient service revenue reached \$8.95 billion, which was an increase of \$691 million, or 8.4%, 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 March 31, 2001. By payer, the annual rates of increase in net patient service revenue were 4.4% for Medicare, 7.4% for Medicaid, and 10.8% for other payers.

### Operating Expenses

Growing by 8.0%, or \$636 million, operating expenses reached \$8.6 billion in the twelve month period ended June 30, 2004. Operating expenses are the costs of providing health care services to hospital patients. Since there was almost no change in aggregate volume during the period, operating expenses per adjusted discharge also increased by 8.0%. This increase substantially exceeded the 3.3% annual increase in the consumer price index for the same period, and was slightly above the 6.4% annual increase in the hospital services component of the index. Although bad debt expense was only 4.7% of total operating expense, 24% of the total increase in operating expense was accounted for by bad debt expense. Without bad debt expense the increase in total operating expense would have been 6.3%.

### Net Operating Income

Net operating income advanced 20.4% to \$321 million in the twelve month period ended June 30, 2004. However, this was a decrease of 6.5%, or \$22 million, from calendar year 2003. But, this drop should not be interpreted as the start of a new trend. Net operating income also turned down in the four quarter period ended March 31, 2002. But that downturn was followed by increases in the next seven quarterly periods. Also it should be noted that uncompensated care has increased by \$178 million since calendar year 2003. With a more normal rate of increase for uncompensated care, net operating income could have continued to grow. While net operating income is an important source of funding for replacement of buildings and equipment as well as the acquisition of modern medical technology, it is not the only source. Many

hospitals also have income from activities other than the provision of patient care services.

## 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; reaching a total of 524,496 discharges during the four quarter period ended June 30, 2004. This was a gain of 8,698 discharges, or 1.7%, over the corresponding year ago period. During the same interval, patient days expanded by 35,296 days, or 1.6%, to 2,280,854 days. Since patient days and discharges grew at about the same rate, average length of stay remained at 4.35 days.

Adjusted discharges reached a total of 929,686 in the four quarter period ended June 30, 2004. This was a decrease of 64 adjusted discharges, or 0.01%, from the four quarter period ended June 30, 2003. Adjusted discharges were down 0.3% from calendar year 2003. The quarter ended March 31, 2004 was the first downturn in adjusted discharges since calendar year 2001. 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.

## Adjusted Discharges 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 stay. 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 the twelve month periods ended June 30, 2003 and June 30, 2004, and the percentage changes were:

| Rate per Adjusted Discharge                          | FYE<br>6/30/03 | FYE<br>6/30/04 | Percent<br>Change |
|--|----------------|----------------|-------------------|
| Total Patient Service Revenue per Adjusted Discharge | 16,994.04      | 19,196.70      | 13.0%             |
| Deductions from Revenue per Adjusted Discharge       | 8,111.36       | 9,570.40       | 18.0%             |
| Net Patient Service Revenue per Adjusted Discharge   | 8,882.68       | 9,626.30       | 8.4%              |
| Operating Expenses per Adjusted Discharge            | 8,595.47       | 9,280.51       | 8.0%              |
| Net Operating Income per Adjusted Discharge          | 287.20         | 345.78         | 20.4%             |

## 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

During the twelve month period ended June 30, 2004 accounts receivable averaged 66.3 days on a statewide basis, which was 10.8% more than the year earlier period. Medicare days in accounts receivable increased by 3.6 days, or 7.8% to 50.5 days and days in accounts receivable for other payers increased by 10.8 days, or 16.4% to 76.9 days, while Medicaid days in accounts receivable declined by 0.7 days, or 1.0% to 67.2 days.

Days in accounts receivable decreased by 1.4% in the Southwest Washington region, while expanding in all other geographic regions of the state. With an average of 52.8 days, the Southwest Washington district was significantly below the other regions, while the King County region was clearly the highest with 74.8 days.

While days in accounts receivable only increased by 4.5% in the less remote rural area, the frontier rural, remote rural and urban areas all experienced increases of over 11%. With an average of 53.5 days, the less remote rural region was significantly below the other regions of the state. The frontier rural region was highest with 77.9 days.

Average days in accounts receivable grew by 7.3% for district hospitals, but experienced little or no growth for not-for-profit and proprietary hospitals. At 51.2 days the proprietary hospitals are significantly below the not-for-profit and district hospitals.

In the four quarter period ended June 30, 2004 average days in accounts receivable for individual hospitals ranged from 22 days to 149 days.

| Days in Accounts Receivable | Twelve Months Ended |             | Change | Percent Change |
|-----------------------------|---------------------|-------------|--------|----------------|
|                             | 30-Jun-2003         | 30-Jun-2004 |        |                |
| Statewide Total             | 59.8                | 66.3        | 6.5    | 10.8%          |
| By Payer Group:             |                     |             |        |                |
| Medicare                    | 46.9                | 50.5        | 3.6    | 7.8%           |
| Medicaid                    | 67.9                | 67.2        | -0.7   | -1.0%          |
| Other Payers                | 66.0                | 76.9        | 10.8   | 16.4%          |
| By Region:                  |                     |             |        |                |
| King County                 | 62.2                | 74.8        | 12.6   | 20.2%          |
| Puget Sound                 | 58.6                | 59.9        | 1.3    | 2.1%           |
| Southwest Washington        | 53.5                | 52.8        | -0.7   | -1.4%          |
| Central Washington          | 61.2                | 63.9        | 2.7    | 4.4%           |
| Eastern Washington          | 58.5                | 66.0        | 7.5    | 12.8%          |
| By Population Density:      |                     |             |        |                |
| Frontier Rural              | 69.7                | 77.9        | 8.1    | 11.7%          |
| Remote Rural                | 63.0                | 70.5        | 7.4    | 11.8%          |
| Less Remote Rural           | 51.2                | 53.5        | 2.3    | 4.5%           |
| Urban                       | 60.6                | 67.5        | 6.9    | 11.4%          |
| By Type of Ownership:       |                     |             |        |                |
| District                    | 61.4                | 65.9        | 4.5    | 7.3%           |
| Not-for-Profit              | 62.1                | 62.6        | 0.5    | 0.8%           |
| Proprietary                 | 51.2                | 51.2        | 0.0    | 0.0%           |

## Operating Margin

Operating margin compares net operating income to total operating revenue. In the twelve month period ended June 30, 2004 operating margin was 3.36%, which was 9.9% greater than the year earlier period, but was 10.6% less than calendar year 2003 and equal to the level achieved in the four quarter period ended September 30, 2003. 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 March 31, 2004 the deductible proportion reached 49.85%, which was an increase of 4.4% over the year earlier level. The deductible proportion has grown every quarter since the four quarter period ended March 31, 1996 and has reached a new high. At the current level, a hospital must bill \$1.994 to realize \$1.00 in net revenue.

### **Contractual Proportion**

The contractual proportion compares total contractual adjustments with total patient service revenue. Likewise, the Medicare, Medicaid, 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 48.0%, which was an increase of 3.2% and was another new high, during the four quarter period ended June 30, 2004. The contractual proportion has grown every quarter since calendar year 1995. The Medicare contractual proportion of 57.7% and the Medicaid contractual proportion of 51.8% are well above the contractual proportion for other payers of 40.2%. This is a direct result of the significant increase in Medicare and Medicaid contractual adjustments over the past year, combined with the smallest increase in contractual adjustments for other payers since calendar year 1985.

### **Uncompensated Care Proportion**

The bad debt proportion, charity proportion, and total uncompensated care proportion, compare bad debt expense, charity care, and total uncompensated care to total patient service revenue. In the four quarter period ended June 30, 2004, the bad debt proportion reached 2.26%, which was an increase of 42.0% over the previous year and was the highest noted since the twelve month period ended March 31, 1991. The charity care proportion reached 1.85%, which was an increase of 53.6% over the previous year and was the highest noted since the twelve month period ended September 30, 1994. The total uncompensated care proportion reached 4.11%,

which was an increase of 47.0% over the previous year, and was the highest noted since the twelve month period ended June 30, 1990. Total uncompensated care was 8.17% of patient service revenue for the other payer category. When combined with the contractual proportion for this group of payers, the total unrealized revenue totals 48.3%. However, this is well below the contractual proportions of 57.7% for Medicare and 51.8% for Medicaid.

### **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 June 30, 2003 and June 30, 2004, the outpatient revenue percentage declined from 44.0% to 43.2%, while the ratio of total revenue to inpatient revenue slipped from 1.79 to 1.76. After peaking in the four quarter period ended June 30, 2003, these ratios have been slowly dropping.

### **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 June 30, 2004 the Medicare percentage was 34.72% and the Medicaid percentage was 15.02%. With 49.74% of total patient service revenue, which is the highest since the four quarter period ended March 31, 1996, 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 June 30, 2004

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

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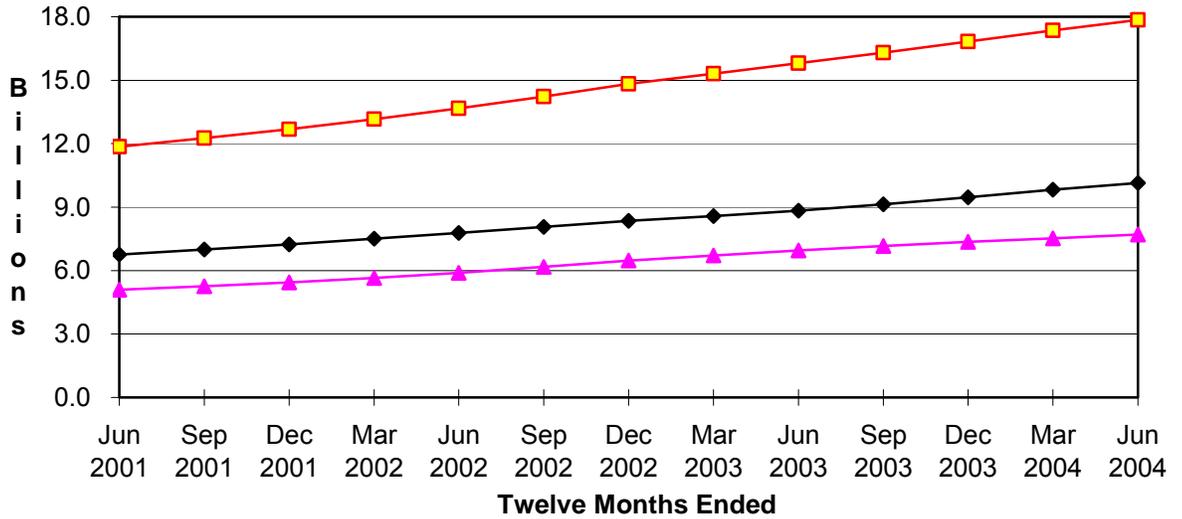
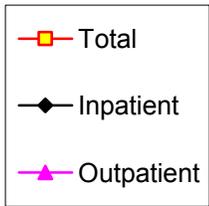
Mary Selecky, Secretary • Department of Health

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

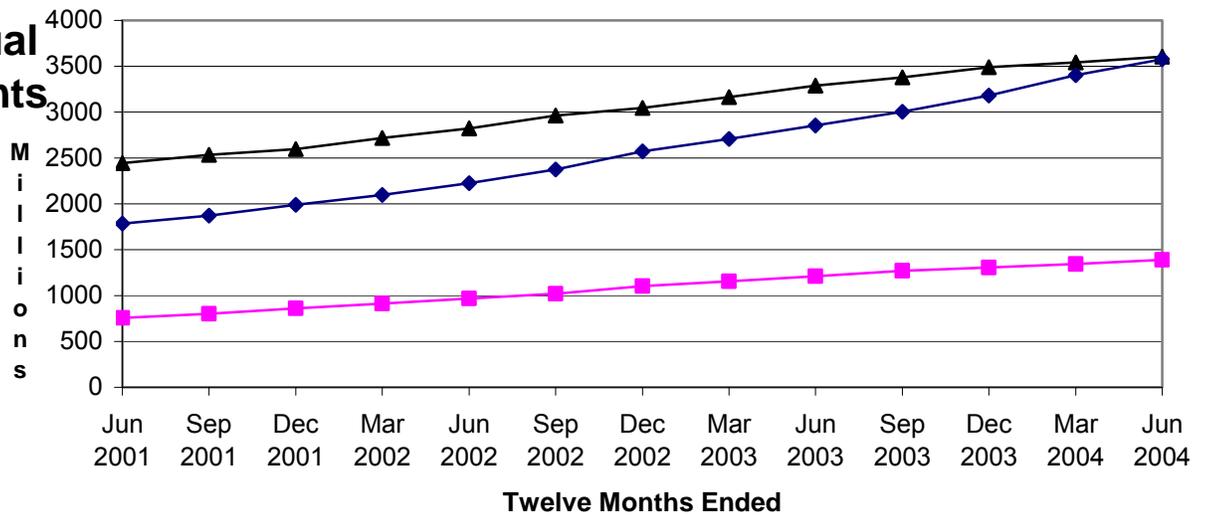
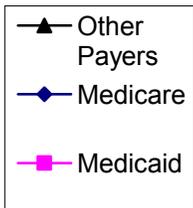
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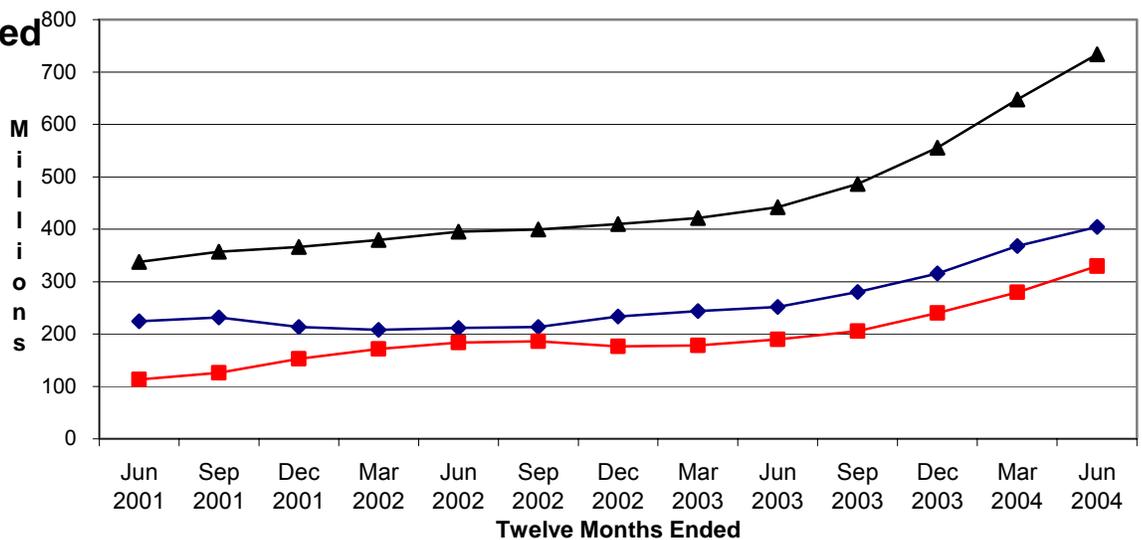
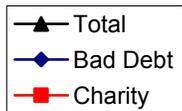
# Total Patient Service Revenue

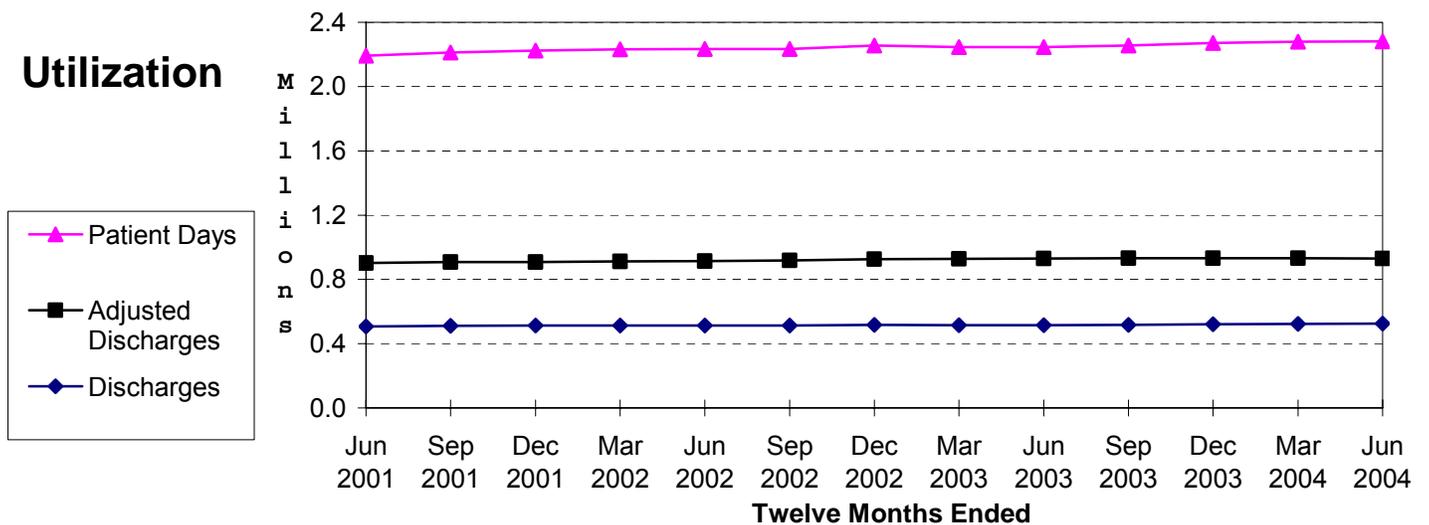
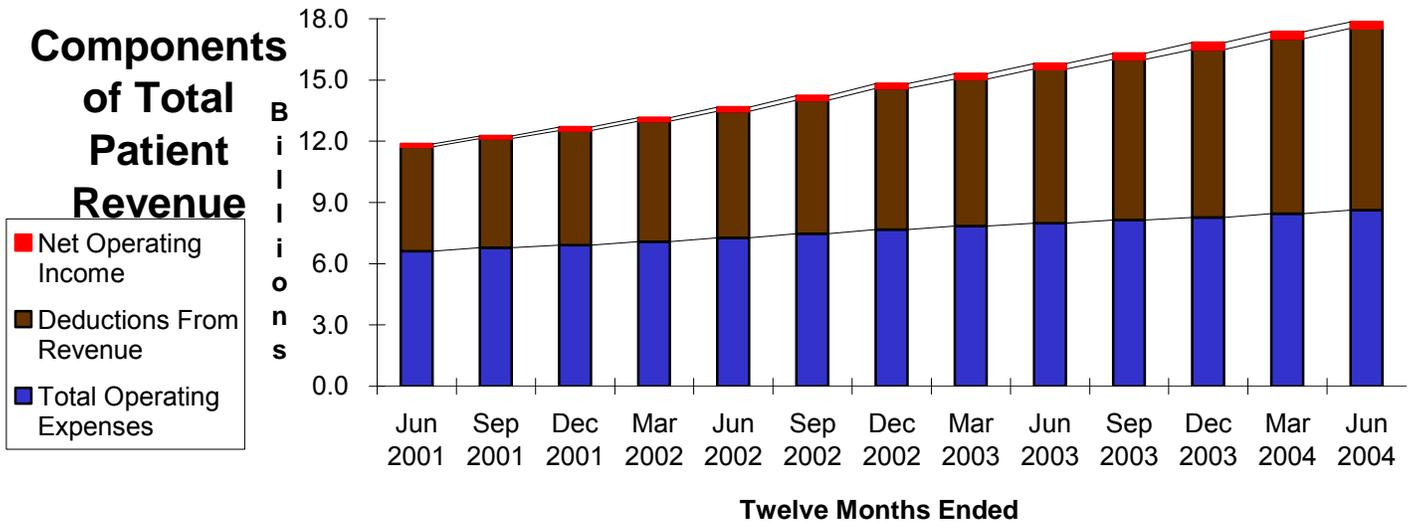
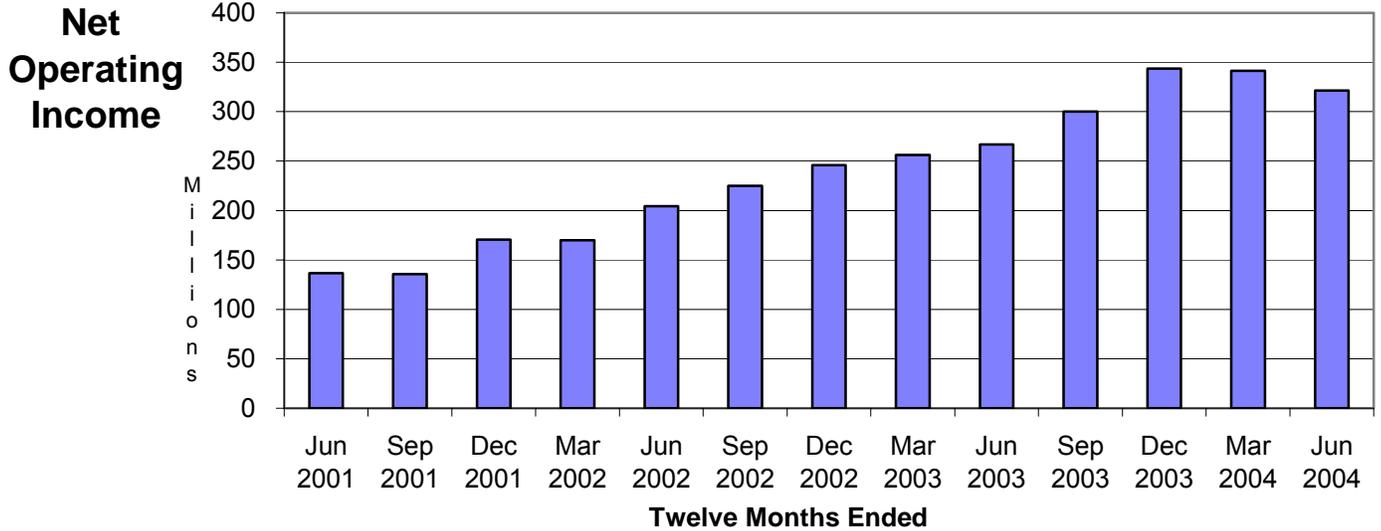


# Contractual Adjustments

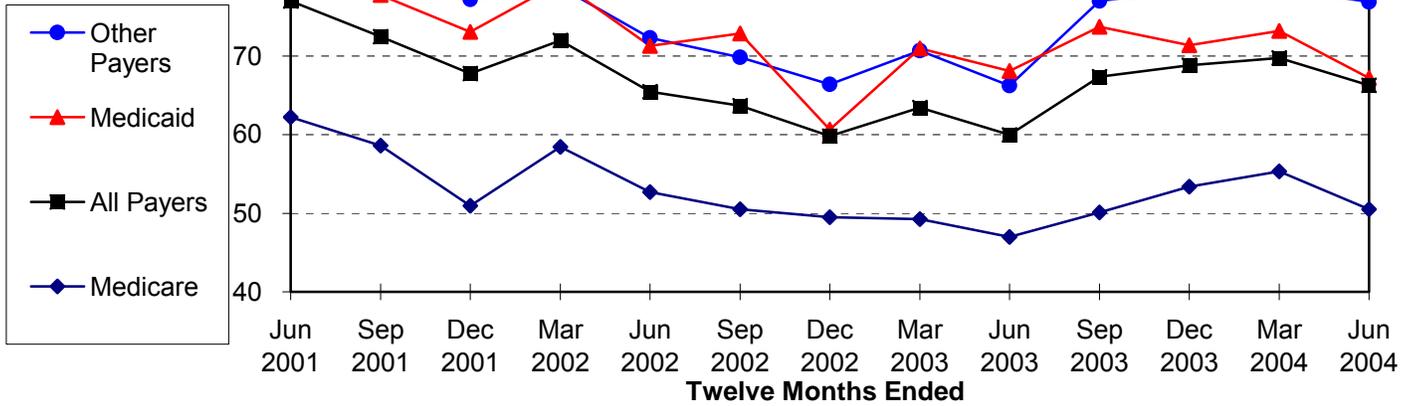


# Uncompensated Care

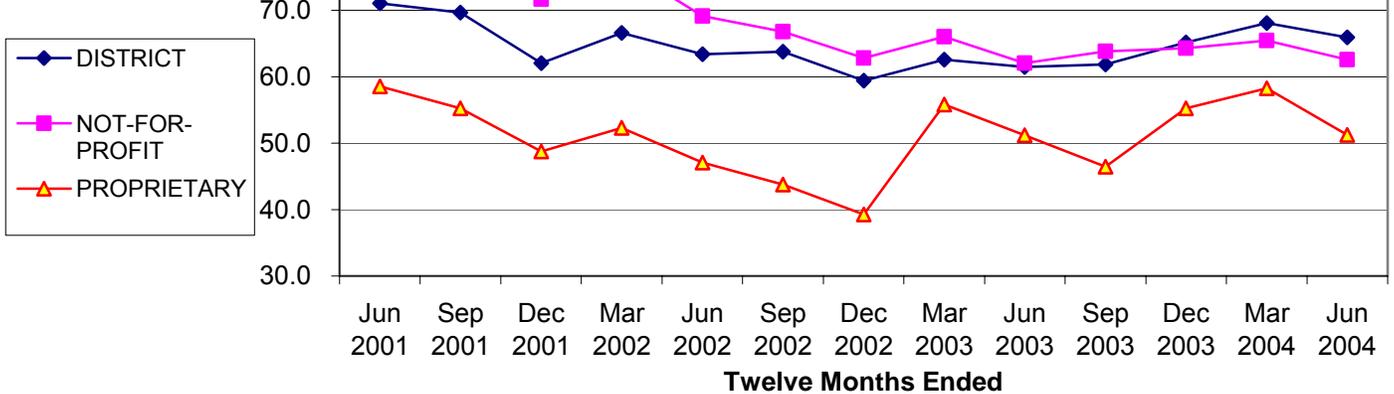




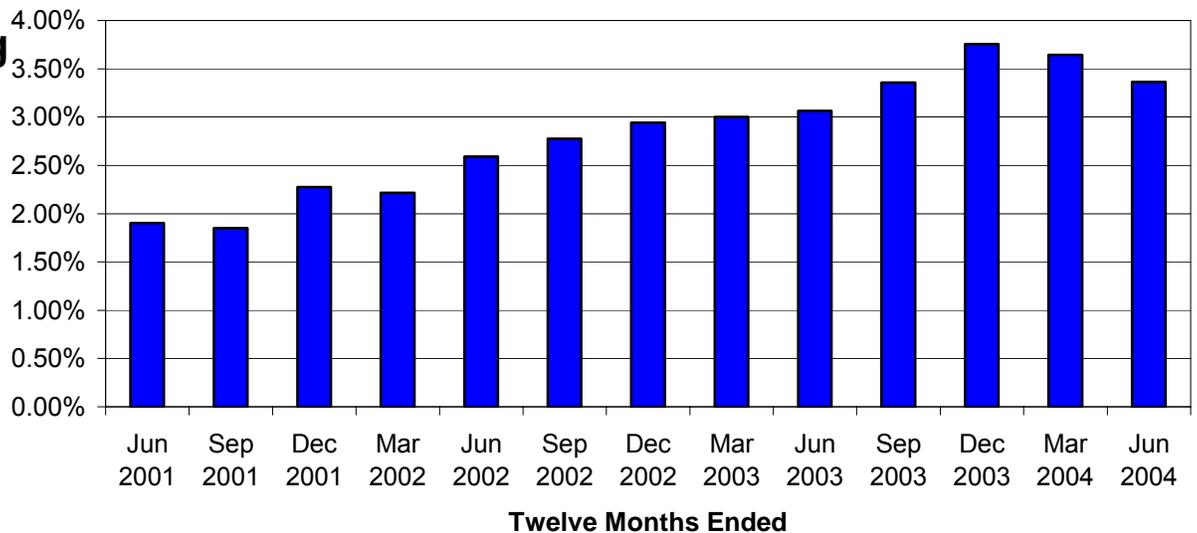
### Days In Accounts Receivable

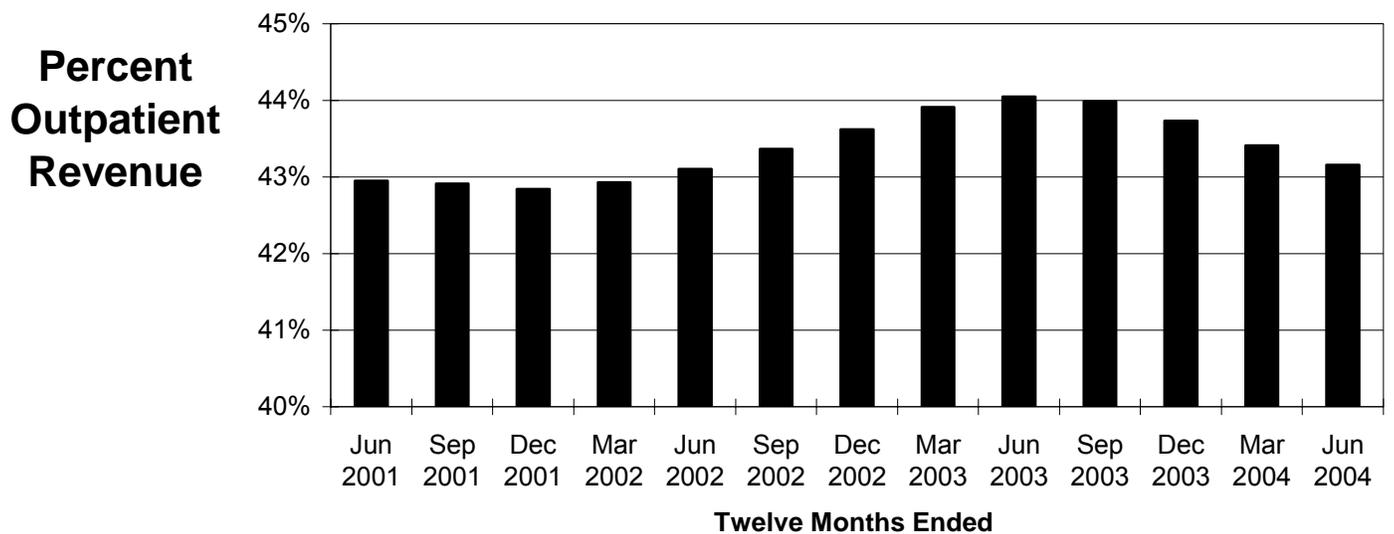
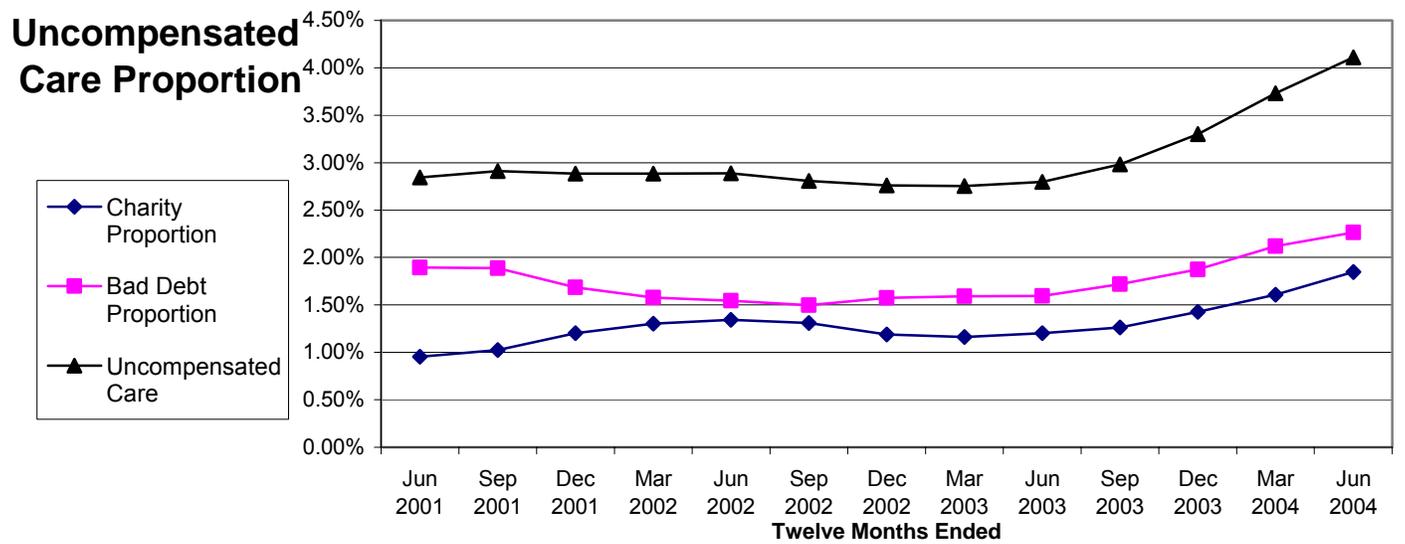
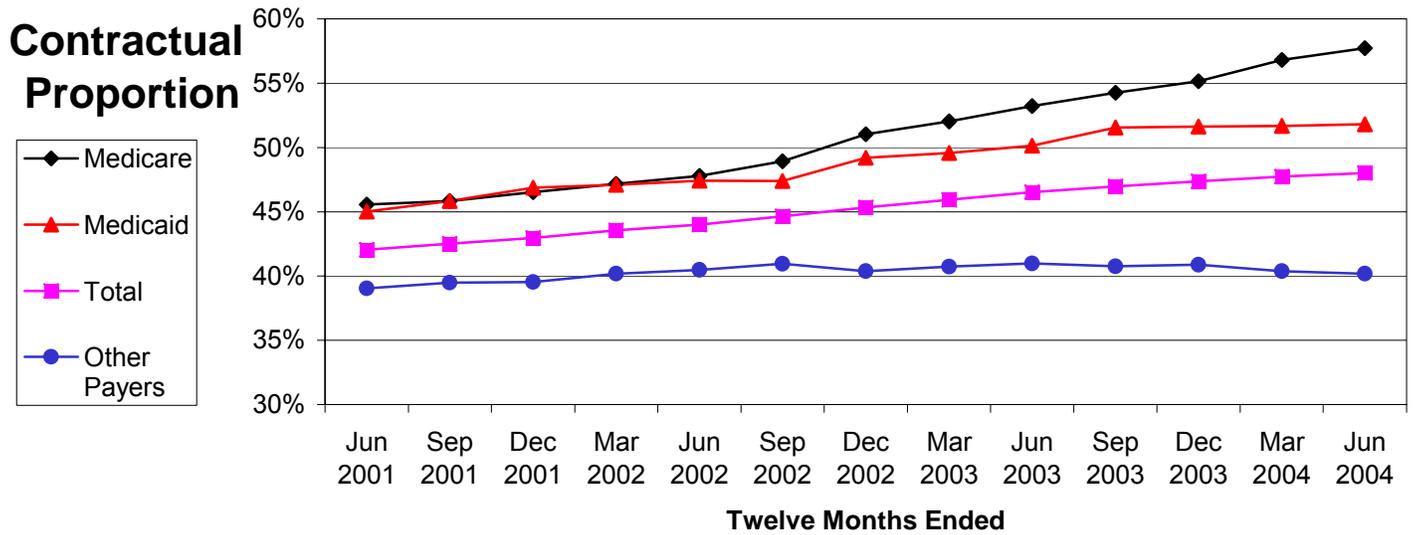


### Days In Accounts Receivable



### Operating Margin





| HOSPITAL PERFORMANCE<br>STATEWIDE  | Twelve Months Ended<br>Jun 30 2003 | Twelve Months Ended<br>Jun 30 2004 | Total<br>Change | Percent<br>Change |
|------------------------------------|------------------------------------|------------------------------------|-----------------|-------------------|
| <b>Total Patient Revenue</b>       |                                    |                                    |                 |                   |
| Inpatient                          | 8,840,143,761                      | 10,144,799,723                     | 1,304,655,962   | 14.76%            |
| Outpatient                         | 6,960,062,102                      | 7,702,104,043                      | 742,041,941     | 10.66%            |
| Total                              | 15,800,205,863                     | 17,846,903,766                     | 2,046,697,903   | 12.95%            |
| Medicare                           | 5,363,235,119                      | 6,196,064,190                      | 832,829,071     | 15.53%            |
| Medicaid                           | 2,413,286,579                      | 2,680,157,771                      | 266,871,192     | 11.06%            |
| Other                              | 8,023,684,165                      | 8,970,681,805                      | 946,997,640     | 11.80%            |
| <b>Contractual Adjustments</b>     |                                    |                                    |                 |                   |
| Medicare                           | 2,853,967,475                      | 3,576,021,910                      | 722,054,435     | 25.30%            |
| Medicaid                           | 1,210,277,895                      | 1,388,320,558                      | 178,042,663     | 14.71%            |
| Other                              | 3,287,363,371                      | 3,603,672,867                      | 316,309,496     | 9.62%             |
| Total                              | 7,351,608,741                      | 8,568,015,335                      | 1,216,406,594   | 16.55%            |
| Charity                            | 189,928,611                        | 329,455,284                        | 139,526,673     | 73.46%            |
| Total                              | 7,541,537,352                      | 8,897,470,619                      | 1,355,933,267   | 17.98%            |
| <b>Uncompensated Care</b>          |                                    |                                    |                 |                   |
| Bad Debt                           | 251,872,242                        | 403,982,889                        | 152,110,647     | 60.39%            |
| Charity                            | 189,928,611                        | 329,455,284                        | 139,526,673     | 73.46%            |
| Total                              | 441,800,853                        | 733,438,173                        | 291,637,320     | 66.01%            |
| <b>Net Patient Revenue</b>         |                                    |                                    |                 |                   |
| Medicare                           | 2,509,267,644                      | 2,620,042,280                      | 110,774,636     | 4.41%             |
| Medicaid                           | 1,203,008,684                      | 1,291,837,213                      | 88,828,529      | 7.38%             |
| Other                              | 4,546,392,183                      | 5,037,553,654                      | 491,161,471     | 10.80%            |
| Total                              | 8,258,668,511                      | 8,949,433,147                      | 690,764,636     | 8.36%             |
| Total Operating Expenses           | 7,991,642,262                      | 8,627,964,069                      | 636,321,807     | 7.96%             |
| Net Operating Income               | 267,026,249                        | 321,469,078                        | 54,442,829      | 20.39%            |
| <b>Days in Accounts Receivable</b> |                                    |                                    |                 |                   |
| Medicare                           | 46.9                               | 50.5                               | 3.6             | 7.79%             |
| Medicaid                           | 67.9                               | 67.2                               | (0.7)           | -1.04%            |
| Other Payers                       | 66.0                               | 76.9                               | 10.8            | 16.43%            |
| Statewide Total                    | 59.8                               | 66.3                               | 6.5             | 10.80%            |
| <b>Utilization</b>                 |                                    |                                    |                 |                   |
| Discharges                         | 515,798                            | 524,496                            | 8,698           | 1.69%             |
| Patient Days                       | 2,245,558                          | 2,280,854                          | 35,296          | 1.57%             |
| Length of Stay                     | 4.35                               | 4.35                               | (0.00)          | -0.11%            |
| Adjusted Discharges                | 929,750                            | 929,686                            | (64)            | -0.01%            |
| <b>Rates</b>                       |                                    |                                    |                 |                   |
| Tot Rev Per Adj Disch              | 16,994.04                          | 19,196.70                          | 2,202.66        | 12.96%            |
| Deductions Per Adj Disch           | 8,111.36                           | 9,570.40                           | 1,459.04        | 17.99%            |
| Net Revenue Per Adj Disch          | 8,882.68                           | 9,626.30                           | 743.62          | 8.37%             |
| Oper Expense Per Adj Disch         | 8,595.47                           | 9,280.51                           | 685.04          | 7.97%             |
| Net Income Per Adj Disch           | 287.20                             | 345.78                             | 58.58           | 20.40%            |
| <b>Financial Ratios</b>            |                                    |                                    |                 |                   |
| Operating Margin                   | 3.06%                              | 3.36%                              | 0.30%           | 9.86%             |
| Deductible Proportion              | 47.73%                             | 49.85%                             | 2.12%           | 4.45%             |
| Contractual Proportion - Total     | 46.53%                             | 48.01%                             | 1.48%           | 3.18%             |
| Contractual Proportion - Medicare  | 53.21%                             | 57.71%                             | 4.50%           | 8.46%             |
| Contractual Proportion - Medicaid  | 50.15%                             | 51.80%                             | 1.65%           | 3.29%             |
| Contractual Proportion - Other     | 40.97%                             | 40.17%                             | -0.80%          | -1.95%            |
| Bad Debt Proportion                | 1.59%                              | 2.26%                              | 0.67%           | 42.00%            |
| Charity Proportion                 | 1.20%                              | 1.85%                              | 0.64%           | 53.57%            |
| Uncompensated Care Proportion      | 2.80%                              | 4.11%                              | 1.31%           | 46.97%            |
| Total Rev/Inpat Rev                | 1.79                               | 1.76                               | -0.03           | -1.57%            |
| Outpat Rev Percent                 | 44.05%                             | 43.16%                             | -0.89%          | -2.03%            |
| Medicare Rev Percent               | 33.94%                             | 34.72%                             | 0.77%           | 2.28%             |
| Medicaid Rev Percent               | 15.27%                             | 15.02%                             | -0.26%          | -1.68%            |