



hospTRENDS

For the Quarter Ending March 31, 2005

Volume 2005-2 July 2005

SUMMARY

The annual growth rates of 12.6% for total patient service revenue, 15.9% for contractual adjustments, and 8.2% for net patient services revenue were all slightly up from the March 31, 2004 period. All three categories' growth rates had been slowly declining since the four quarters ending December 31, 2002.

Charity care has continued a strong growth pattern. Since the four quarters ending September 30, 2003, charity care dollars have grown 114% while billed revenue has only increased 20%. The four quarter period ending March 31, 2005 saw jumps of 14.2% in bad debt and 57.2% in charity care, resulting in an overall growth rate of 32.3% for uncompensated care. Uncompensated care accounted for 4.48% of total billed charges, which is only slightly smaller than the record high of 4.55% in the quarter ending December 31, 2004.

It is up significantly from the 4 quarters ending March 31, 2004 rate of 3.82%. The increase of 7.1% in total operating expenses per adjusted discharge is considerably higher than the 3.1% advance in the overall consumer price index and slightly above the 5.7% jump in the hospital services component of the index.

Net operating income rose by only 0.5% over the year ago level, however this was an improvement over the period ending December 31, 2004 which showed a decline of 14.8% from the period ending December 31, 2003.

Accounts receivable overall declined to 65.3 days of revenue for the four quarter period ending March 31, 2005. Days in accounts receivable were up by 0.8 days for Medicare, 4.4 days for Medicaid and 0.1 days for other payers.

ANNOUNCEMENTS

CHARS 2004 full year dataset, our hospital inpatient data, is now available. Visit the Department of Health web site at <http://www.doh.wa.gov/EHSPHL/hospdata> for an order form. You can also find a large variety of hospital data and reports at our web site. 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*, and Charity Care reports. *hospTRENDS* is available at the link: <http://www.doh.wa.gov/EHSPHL/hospdata/hospTrend/>

If you are currently receiving this report on paper via postal mail, you could be receiving it up to a week earlier by electronic mail attachment. However, if you prefer electronic mail delivery you must ask for it. Please call (360) 236-4216 or send an electronic message to ric.ordos@doh.wa.gov to change the form of delivery of your *hospTRENDS* report.

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.

BACKGROUND

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 three calendar quarters of 2004 and the first

calendar quarter of 2005. It provides a first look at the 2004 and 2005 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.

FINANCIAL INDICATORS

Total Patient Service Revenue

Total patient service revenue, which is the sum of billed charges for all hospital services, increased by \$2.2 billion to \$19.5 billion, which was an increase of 12.6%. This was up slightly from the recent, lowest ever, annual percentage increase in total patient services revenue from the twelve month period ending December 31, 2004. The growth rate of 12.4% for outpatient revenue reversed a three period trend where the percent was below 11.0. The increase of 9.4% for other revenue was less than any recorded since the twelve month period ending December 31, 1996.

Contractual Adjustments

For the twelve months ending March 31, 2005 contractual adjustments reached \$9.6 billion. The annual increase rate was 17.2%. By payer group, contractual adjustments were up 13.6% for Medicare, 16.0% for Medicaid, and 18.0% for other payers. The growth rate for Medicaid was the highest realized since the four quarter period ending June 30, 2003 and the growth rate for other payers was the highest realized since June 30, 2001. 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, HMOs, 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 4.4% of deductions from revenue and bad debt expense is only 4.8% of operating expense, they have been growing very rapidly during the past year. Charity care has grown by 57.2% and bad debt has grown by 14.2%, for a total jump in uncompensated care of 32.3%. Over the past two years, charity care has grown from \$178 million to \$439 million. Charity care is for the first time larger than bad debt.

Net Patient Service Revenue

Net patient service revenue is defined as the amount of inpatient and outpatient revenue actually realized by hospitals. In the four quarter period ending March 31, 2005 net patient service revenue reached \$9.53 billion, which was an increase of \$723 million, or 8.2%, over the corresponding period a year ago. This was the seventh annual increase in a row that was between 7.7% and 8.9% in net patient service revenue. By payer, the annual rates of increase in net patient service revenue were 17.7% for Medicare, 18.8% for Medicaid, and 0.6% for other payers.

Operating Expenses

Growing by 8.5%, or \$732 million, operating expenses reached \$9.2 billion in the twelve month period ending March 31, 2005. Operating expenses are the costs of providing health care services to hospital patients. Since there was an increase in aggregate volume during the period, operating expenses per adjusted discharge only increased by 7.1%. Still this increase substantially exceeded the 3.1% annual increase in the consumer price index for the same period, and was slightly above the 5.7% annual increase in the hospital services component of the index. Bad debt expense was only 4.8% of total operating expense, however it increased 14.6% while operating expenses increased 8.5%.

Net Operating Income

Net operating income increased 0.05% to \$362 million in the twelve month period ending March 31, 2005. However, it is too early to project a trend. This value is very sensitive to any changes in any income statement component since it is such a small percent of both the total and net patient service revenue amounts. 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 531,721 discharges during the four quarter period ending March 31, 2005. This was a gain of 9,044 discharges, or 1.7%, over the

corresponding year ago period. During the same interval patient days expanded by 5,481 days, or 0.3%, to 2,285,513 days. Since patient days grew more than discharges, average length of stay dropped from 4.35 to 4.30 days.

Adjusted Discharges

Adjusted discharges reached a total of 943,292 in the four quarter period ending March 31, 2005. This was a increase 1.37%, from the four quarter period ending March 31, 2004. 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 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 ending March 31, 2004 and March 31, 2005, and the percentage changes were:

<u>Rate per Adjusted Discharge</u>	<u>FYE 3/31/04</u>	<u>FYE 3/31/05</u>	<u>Percent Change</u>
Total Patient Service Revenue per Adjusted Discharge	\$18,650.87	\$20,724.97	+11.1%
Deductions from Revenue per Adjusted Discharge	\$9,188.12	\$10,623.67	+15.6%
Net Patient Service Revenue per Adjusted Discharge	\$9,462.75	\$10,101.31	+6.8%
Operating Expenses per Adjusted Discharge	\$9,095.73	\$9,739.03	+7.1%
Net Operating Income per Adjusted Discharge	\$367.02	\$362.27	-1.3%

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 ending March 31, 2005 accounts receivable averaged 65.3 days on a statewide basis, which was 6.44% less than the year earlier period. Medicare days in accounts receivable decreased by 8.7 days, or -2.87%, to 46.6 days and days in accounts receivable for other payers decreased by 0.7 days, or 0.8%, to 78 days, while Medicaid days in accounts receivable declined by 5.6 days, or 7.6%, to 67.6 days.

In the four quarter period ending March 31, 2005 average days in accounts receivable for individual hospitals ranged from 19 days to 156 days.

Operating Margin

Operating margin compares net operating income to total operating revenue. In the twelve month period ending March 31, 2005 operating margin was 3.34%, which was -7.4% less than the year earlier period, but was 13.8% more than calendar year 2004 and equal to the level achieved in the four quarter period ending September 30, 2004. 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 ending March 31, 2004 the deductible proportion reached 51.3%, which was an increase of 4.5% over the year earlier level. The deductible proportion has grown every quarter since the four quarter period ending March 31, 1996 and has reached another new high. At the current level, a hospital must bill \$2.051 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 49.0%, which was an increase of 2.9% and was another new high, during the four quarter period ending March 31, 2005. The contractual proportion has grown every quarter since calendar year 1995. The Medicare contractual proportion of 55.9% and the Medicaid contractual proportion of 51.1% are well above the contractual proportion for other payers of 43.4%. The Medicare and Medicaid rate of increase is smaller than the rate for the four quarter period ending March 31, 2004.

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 ending March 31, 2005, the bad debt proportion reached 2.24%, which was an increase of 1.4% over the previous year. The charity care proportion reached 2.25%, which was an increase of 39.5% over the previous year and is the highest since records have been kept. The total uncompensated care proportion reached 4.48%, which was an increase of 17.5%. This percent is only slightly lower than the historic high-ending calendar year 2004.

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 ending June 30, 2003 and March 31, 2005, the outpatient revenue percentage declined from 43.4% to 43.3%, while the ratio of total revenue to inpatient revenue stayed the same at 1.76%. After peaking in the four quarter period ending 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 ending March 31, 2005 the Medicare percentage was 35.3% and the Medicaid percentage was 15.6%. With 50.9% of total patient service revenue, which is the highest since the four quarter period ending September 30, 1995, 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 Ending March 31, 2005

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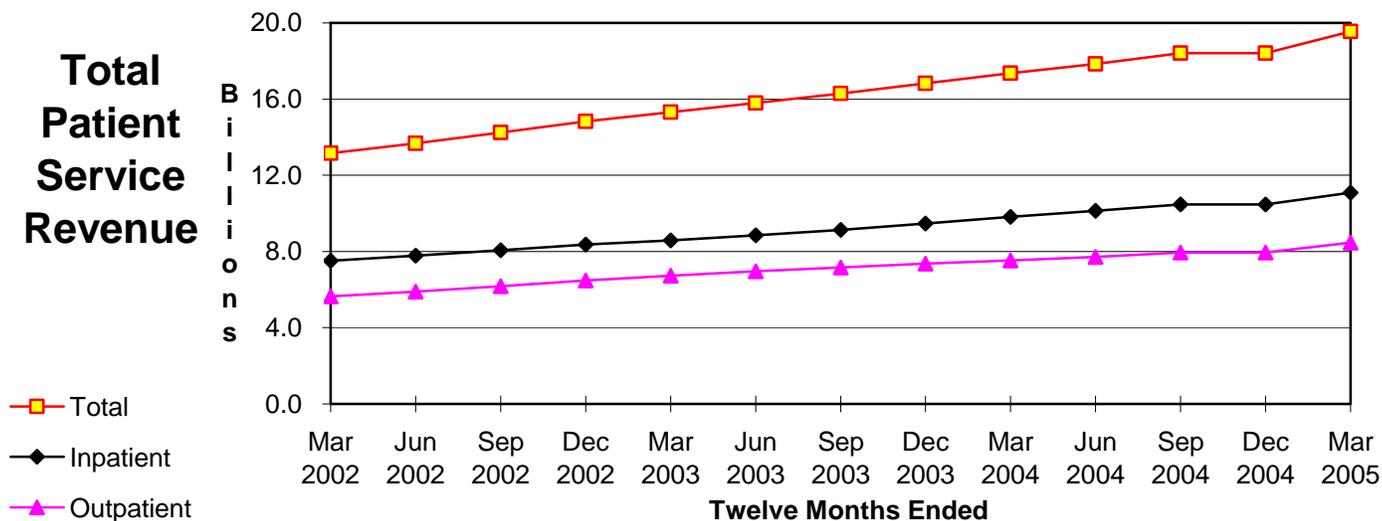
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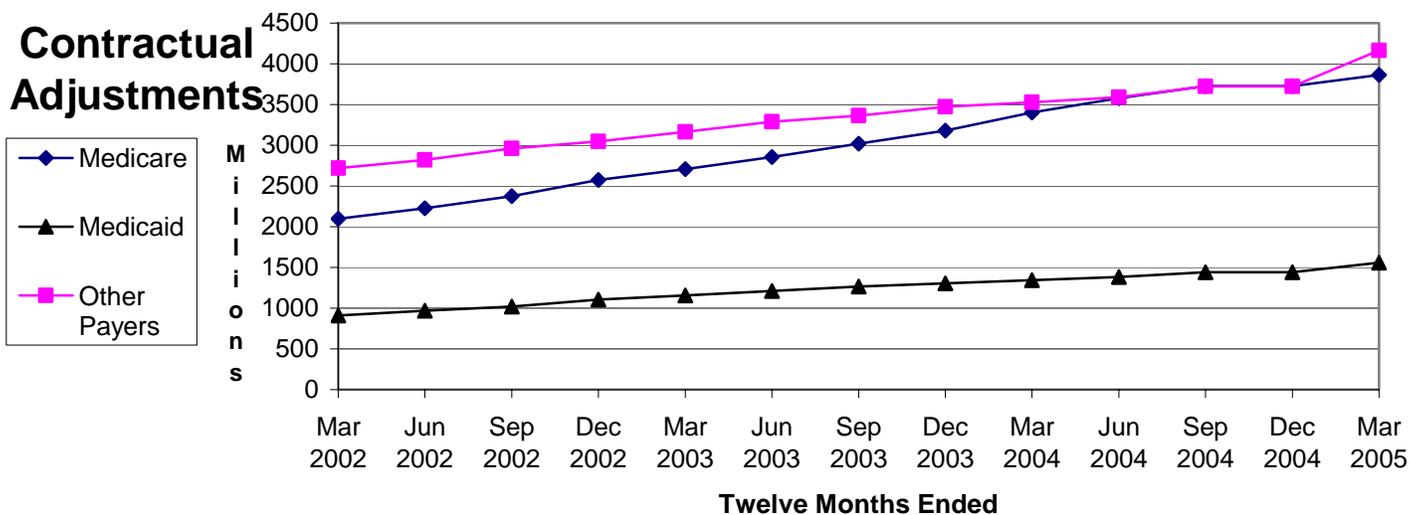
Teresa Jennings, State Registrar and Director - Center for Health Statistics

Author: Richard Ordos

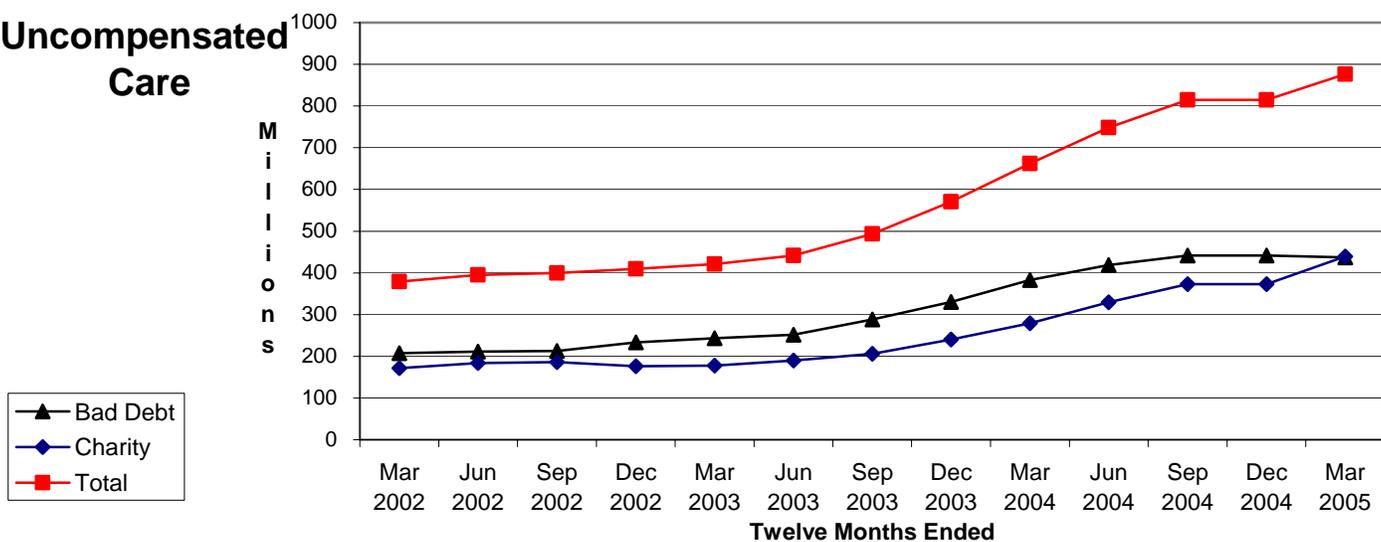
Total Patient Service Revenue

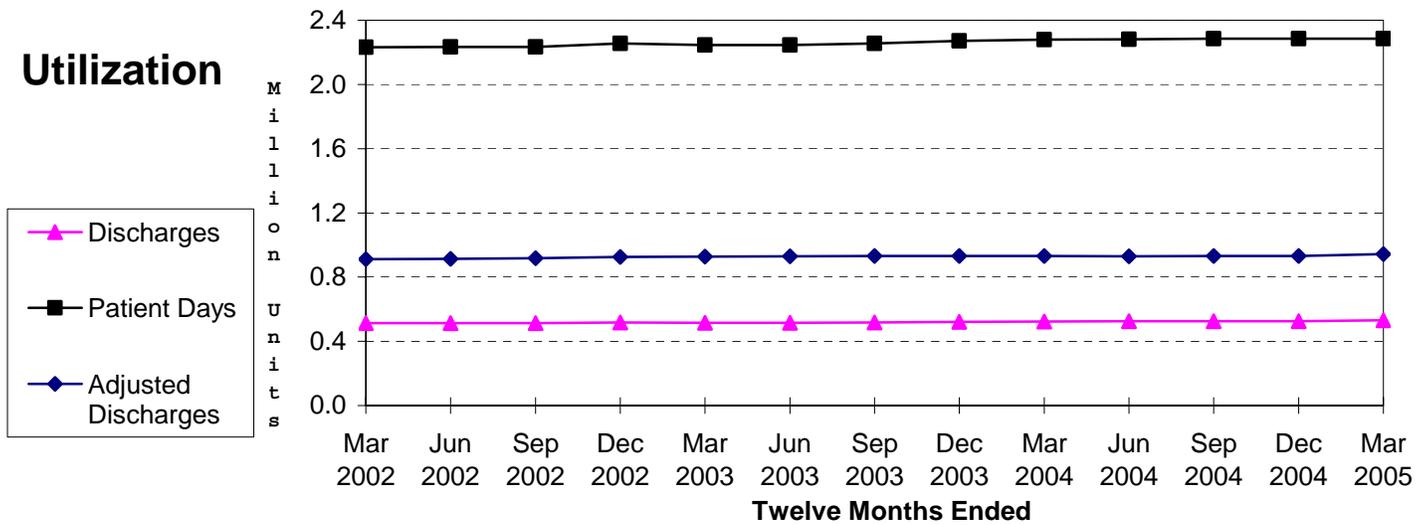
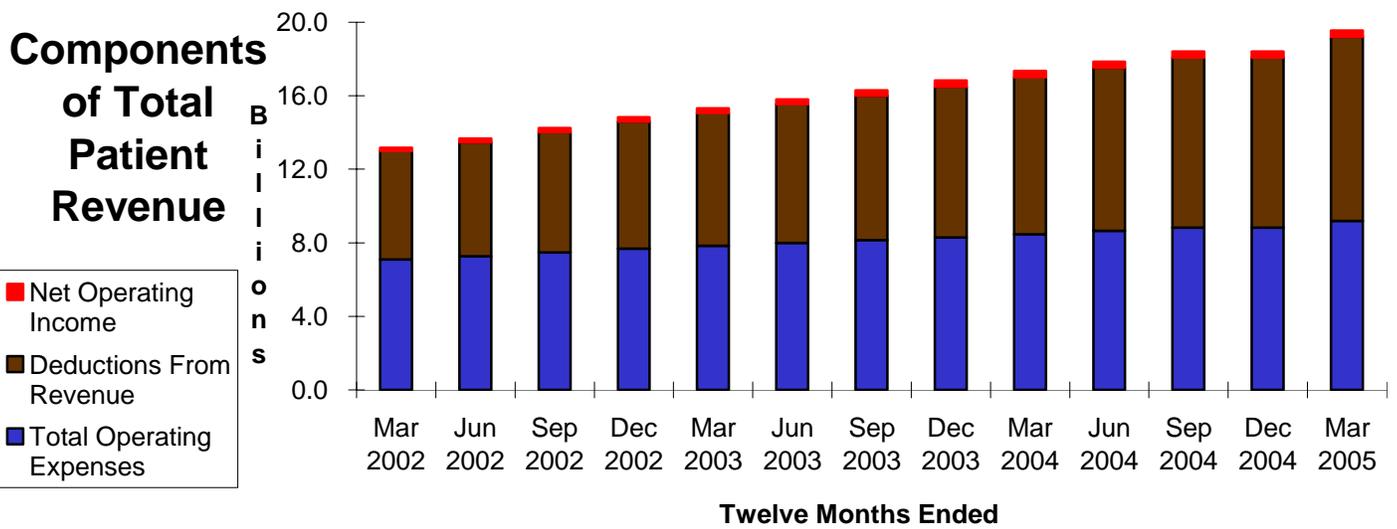
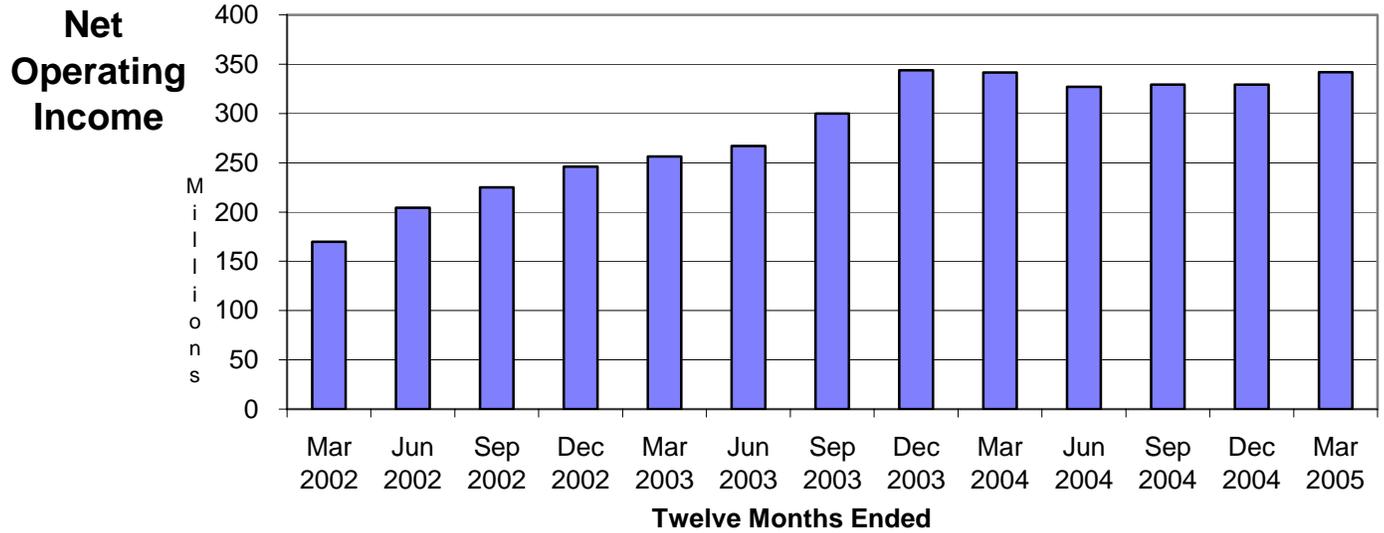


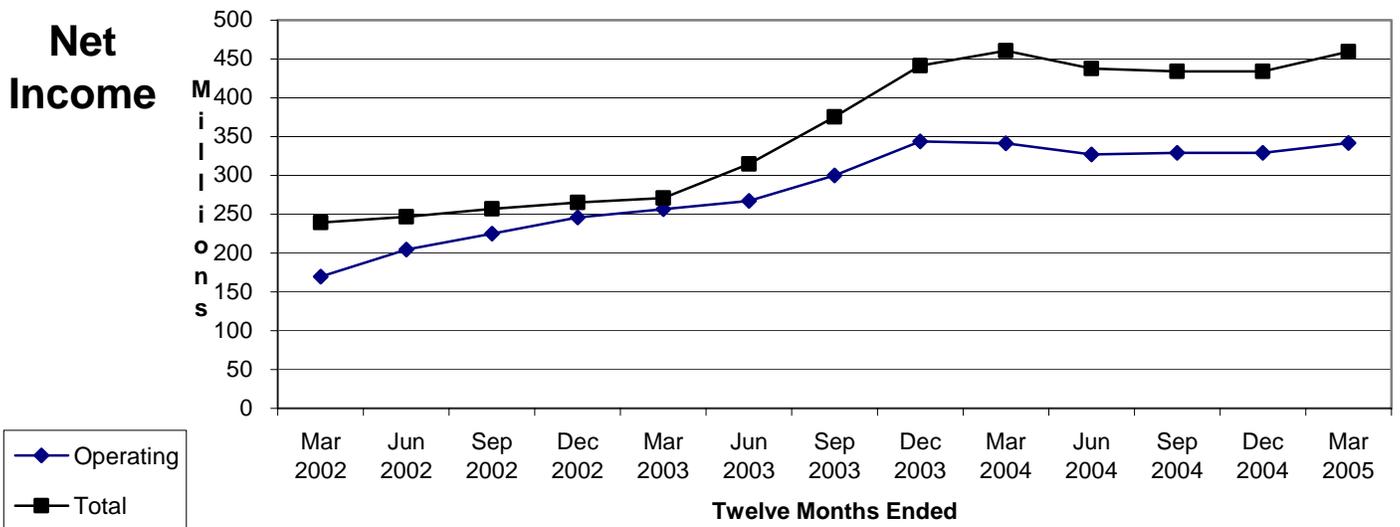
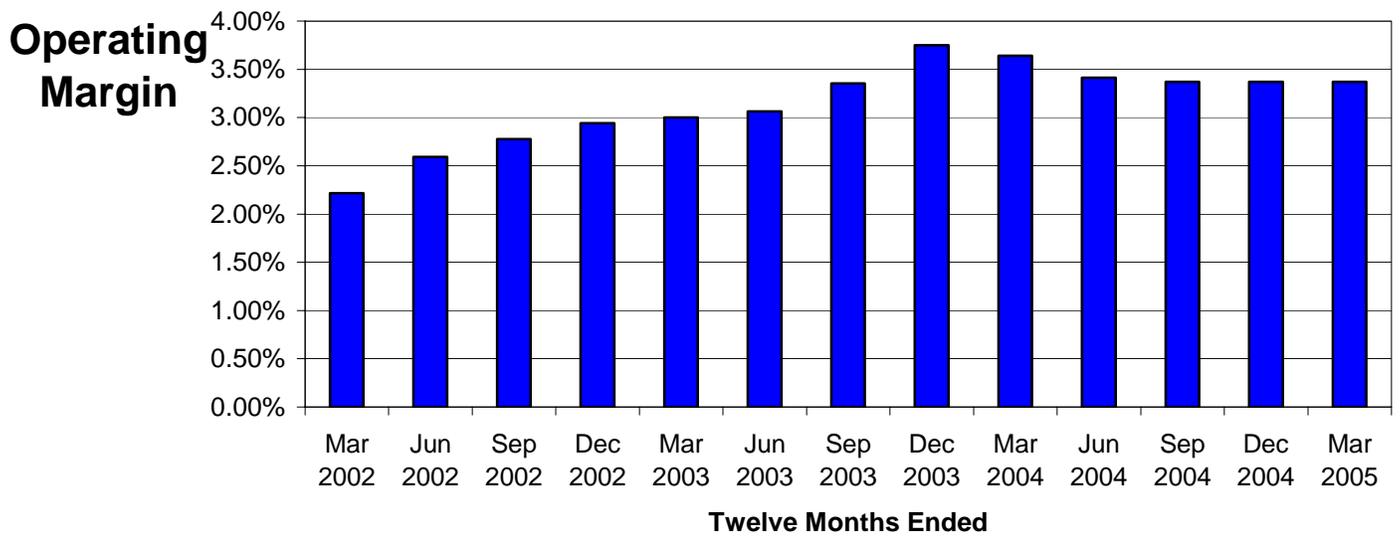
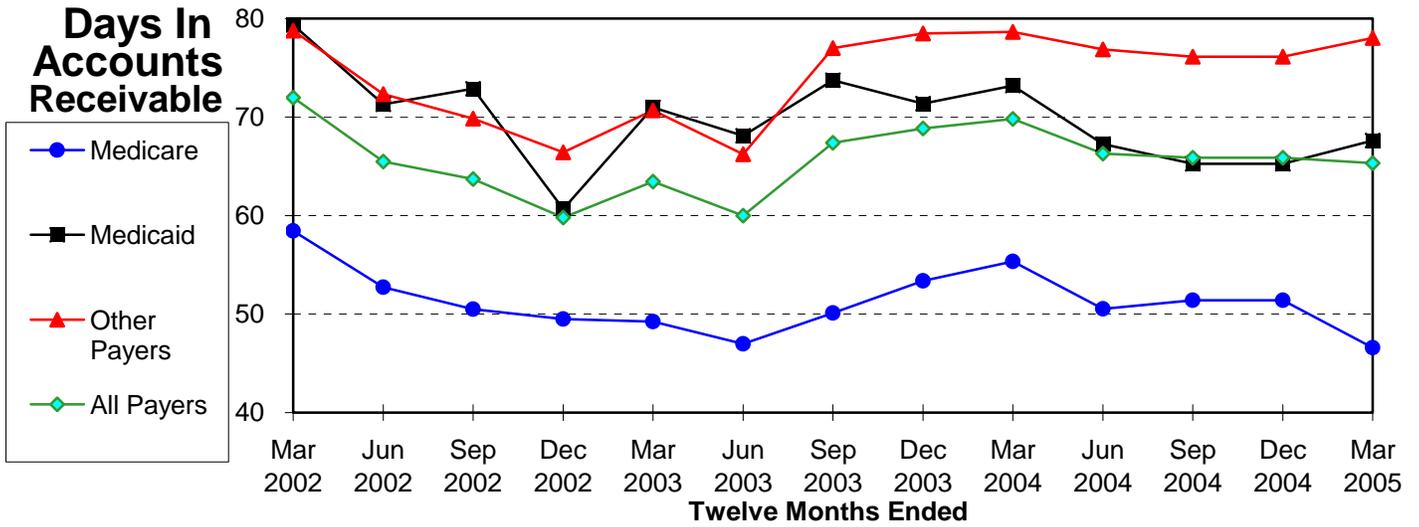
Contractual Adjustments

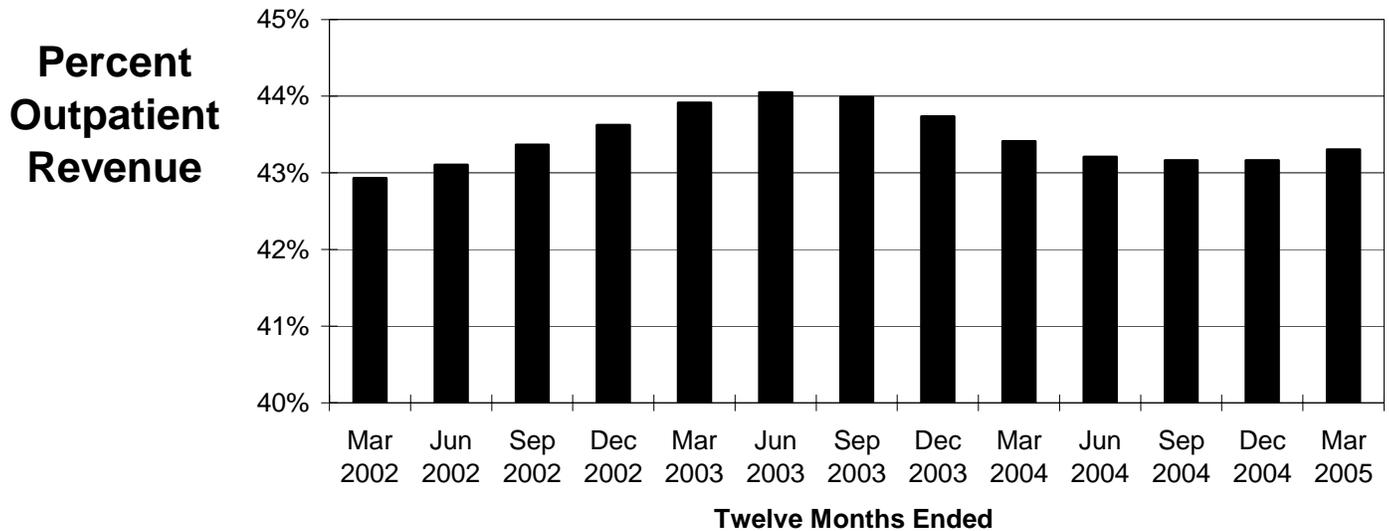
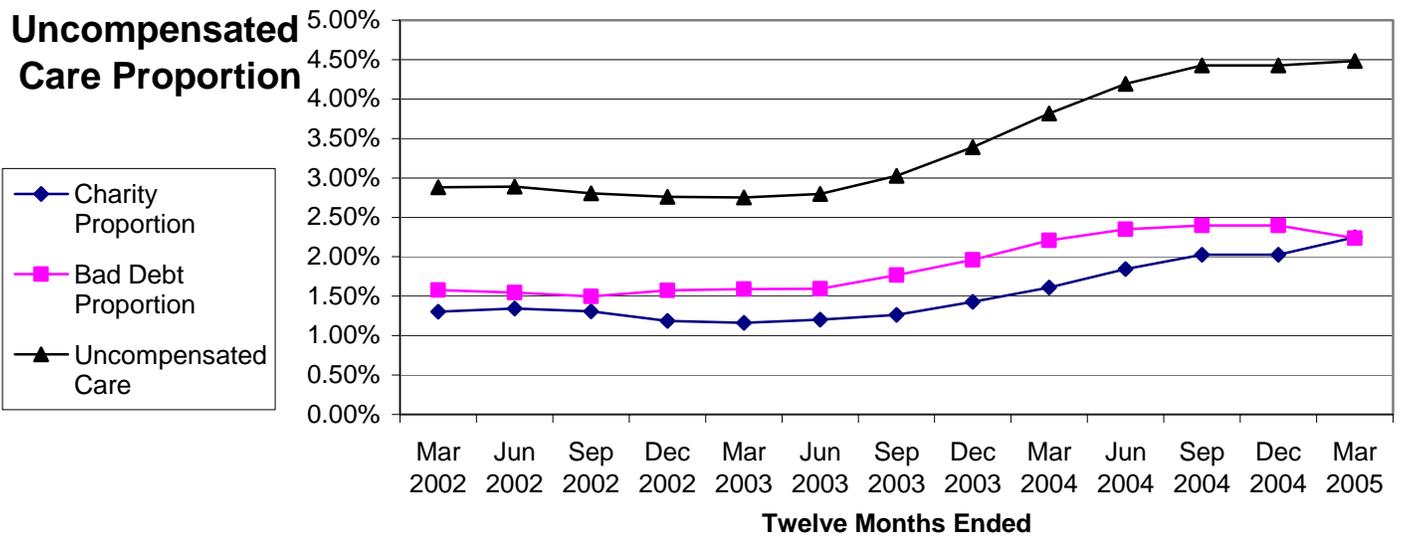
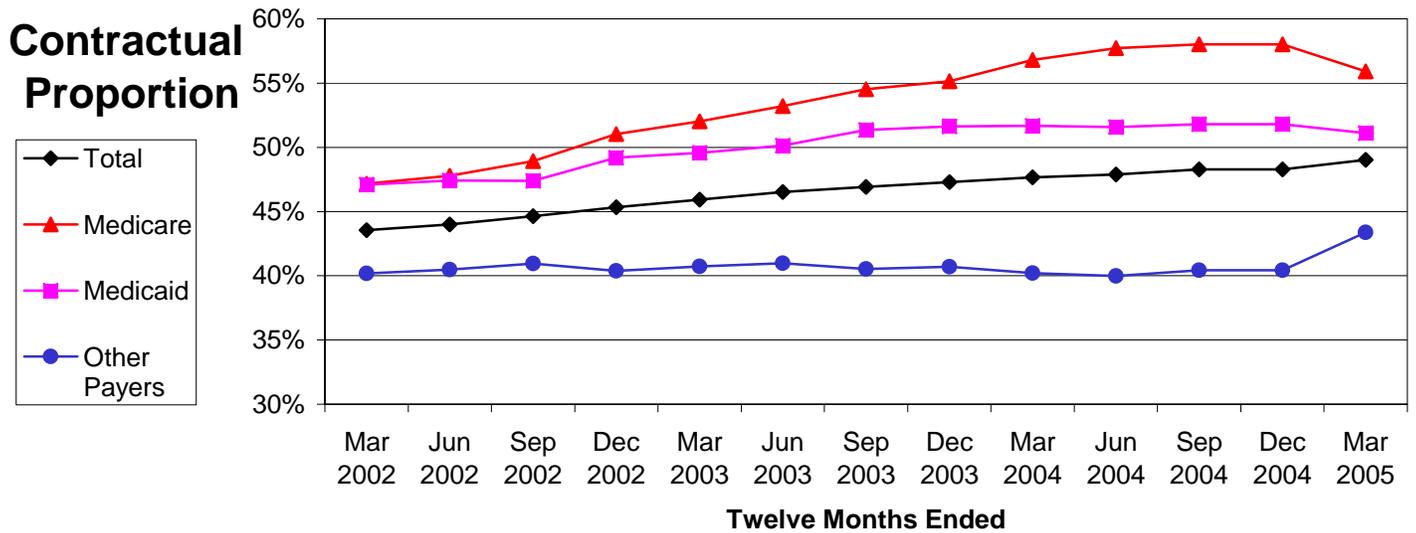


Uncompensated Care









HOSPITAL PERFORMANCE STATEWIDE	12 Months Ended		Total Change	Percent Change
	Mar 31 2004	Mar 31, 2005		
Total Patient Revenue				
Inpatient	9,821,580,696	11,084,317,200	1,262,736,504	12.86%
Outpatient	7,534,657,708	8,465,385,421	930,727,713	12.35%
Total	17,356,238,404	19,549,702,621	2,193,464,217	12.64%
Medicare	5,986,664,450	6,906,283,163	919,618,713	15.36%
Medicaid	2,597,410,812	3,047,669,919	450,259,107	17.33%
Other	8,772,163,142	9,595,749,539	823,586,397	9.39%
Deductions From Revenue				
Contractual Adjustments				
Medicare	3,401,166,362	3,862,054,243	460,887,881	13.55%
Medicaid	1,342,439,938	1,557,341,633	214,901,695	16.01%
Other	3,527,355,578	4,162,736,169	635,380,591	18.01%
Total	8,270,961,878	9,582,132,045	1,311,170,167	15.85%
Charity	279,373,085	439,087,876	159,714,791	57.17%
Total	8,550,334,963	10,021,219,921	1,470,884,958	17.20%
Uncompensated Care				
Bad Debt	383,004,619	437,237,946	54,233,327	14.16%
Charity	279,373,085	439,087,876	159,714,791	57.17%
Total	662,377,704	876,325,822	213,948,118	32.30%
Net Patient Revenue				
Medicare	2,585,498,088	3,044,228,920	458,730,832	17.74%
Medicaid	1,254,970,874	1,490,328,286	235,357,412	18.75%
Other	4,965,434,479	4,993,925,494	28,491,015	0.57%
Total	8,805,903,441	9,528,482,700	722,579,259	8.21%
Cost Recoveries	578,220,917	610,316,577	32,095,660	5.55%
Total Operating Revenue	9,384,124,358	10,138,799,277	754,674,919	8.04%
Total Gross Revenue	9,503,298,301	10,256,608,112	753,309,811	7.93%
Total Operating Expenses	8,464,361,881	9,186,753,484	722,391,603	8.53%
Net Operating Income	341,541,560	341,729,216	187,656	0.05%
Non-Operating Income	103,240,282	97,043,089	(6,197,193)	-6.00%
Tax Revenue	15,933,661	20,765,746	4,832,085	30.33%
Net Total Income	460,715,503	459,538,051	(1,177,452)	-0.26%
Gross Accounts Receivable				
Medicare	904,897,097	879,146,116	(25,750,981)	-2.85%
Medicaid	519,444,261	563,061,536	43,617,275	8.40%
Other	1,885,140,048	2,045,614,970	160,474,922	8.51%
Total	3,309,481,406	3,487,822,622	178,341,216	5.39%
Days in Accounts Receivable				
Medicare	55.3	46.6	(8.73)	-15.78%
Medicaid	73.2	67.6	(5.58)	-7.62%
Other Payers	78.7	78.0	(0.63)	-0.80%
Statewide Total	69.8	65.3	(4.49)	-6.44%
Utilization				
Discharges	522,677	531,721	9,044	1.73%
Patient Days	2,280,032	2,285,513	5,481	0.24%
Length of Stay	4.36	4.30	(0.06)	-1.46%
Adjusted Discharges	930,586	943,292	12,706	1.37%
Rates				
Tot Rev Per Adjusted Discharge	18,650.87	20,724.97	2,074.10	11.12%
Deductions Per Adjusted Discharge	9,188.12	10,623.67	1,435.55	15.62%
Net Revenue Per Adjusted Discharge	9,462.75	10,101.31	638.56	6.75%
Oper Expense Per Adjusted Discharge	9,095.73	9,739.03	643.30	7.07%
Net Income Per Adjusted Discharge	367.02	362.27	(4.74)	-1.29%
Financial Ratios				
Operating Margin	3.64%	3.37%	-0.27%	-7.39%
Total Margin	4.85%	4.48%	-0.37%	-7.58%
Deductible Proportion	49.26%	51.26%	2.00%	4.05%
Contractual Proportion - Total	47.65%	49.01%	1.36%	2.85%
Contractual Proportion - Medicare	56.81%	55.92%	-0.89%	-1.57%
Contractual Proportion - Medicaid	51.68%	51.10%	-0.58%	-1.13%
Contractual Proportion - Other	40.21%	43.38%	3.17%	7.88%
Bad Debt Proportion	2.21%	2.24%	0.03%	1.35%
Charity Proportion	1.61%	2.25%	0.64%	39.53%
Uncompensated Care Proportion	3.82%	4.48%	0.67%	17.46%
Total Revenue/Inpatient Revenue	1.767	1.764	(0.003)	-0.19%
Outpatient Revenue Percent	43.41%	43.30%	-0.11%	-0.25%
Medicare Revenue Percent	34.49%	35.33%	0.83%	2.42%
Medicaid Revenue Percent	14.97%	15.59%	0.62%	4.17%