

## Introduction

Congratulations to the long time manager of the Hospital and Patient Data section Larry Hettick, who retired at the end of January 2007. Larry joined the now sunset Hospital Commission in 1980 and stayed on when the commission staff was merged into the then new Department of Health in 1989. Thank you Larry, for your 31 years of dedicated service to state government and the hospital industry. You will be missed.

The hospTrends Featured Topic this quarter is a discussion and analysis of hospital volume trends we don't normally review, such as emergency room visits, inpatient surgeries and outpatient visits. The Featured Topic is where a financial or utilization category is given a slightly longer explanation. hospTrends reviews the current plus previous 12 quarters, which equals three years plus one quarter. To be consistent we use quarterly data for the entire time period even though actual fiscal year end data is available through 2005. Our web site information and a short description of the data we have available are at the end of the report.

## Quarterly Quick Review

Below is a summary table of the statewide trends. The total number of discharges has increased 3.7%. Patient days has increased 2.3% recently. Average length of stay decreased to 4.21 or 1.4%

Billed or total Revenue grew at 12.2% while deductions from revenue grew at a 15.5% rate which is similar to previous periods. Net Revenue grew at 8.7%. Other operating revenue grew at 12.2% while other income and tax revenue grew at 29.4%. The operating revenue grew at about the same rate (8.9%) as operating expense (8.9%) which translates into a operating margin increase of 8.5% over the previous period. While the operating margin in dollars increased, the ratio actually declined by .08% because operating expense increased slightly more than revenue. Total margin increased by 3.6% because other income had a significant increase of 29.4%. Charity care increased 4.6% while bad debt rebounded from a recent decline with 12.9% increase.

### Statewide Summary of Quarterly Reports

	4 Quarter Period Ending		Percent Differenc e	2006 Percent of Tot Rev
	9/30/2005	9/30/2006		
Discharges	540,736	560,998	3.7%	
Patient Days	2,308,641	2,361,607	2.3%	
Average Length of Stay	4.27	4.21	-1.4%	
<b>+ Total Revenue</b>	<b>20,799,962,232</b>	<b>23,343,012,103</b>	<b>12.2%</b>	
- Deductions from Revenue	10,803,678,053	12,481,906,918	15.5%	53.5%
<b>= Net Revenue</b>	<b>9,996,284,179</b>	<b>10,861,105,185</b>	<b>8.7%</b>	<b>46.5%</b>
<b>+ Other Operating Revenue</b>	<b>636,155,352</b>	<b>713,561,610</b>	<b>12.2%</b>	<b>3.1%</b>
<b>= Operating Revenue</b>	<b>10,632,439,531</b>	<b>11,574,666,795</b>	<b>8.9%</b>	<b>49.6%</b>
- Operating Expenses	10,186,303,996	11,090,463,987	8.9%	47.5%
<b>= Operating Margin</b>	<b>446,135,535</b>	<b>484,202,808</b>	<b>8.5%</b>	<b>2.1%</b>
<b>+ Other Income/Tax Revenue</b>	<b>137,193,318</b>	<b>177,479,652</b>	<b>29.4%</b>	<b>0.8%</b>
<b>= Total Margin</b>	<b>583,328,853</b>	<b>661,682,460</b>	<b>13.4%</b>	<b>2.8%</b>
Charity Care	500,879,058	524,088,665	4.6%	2.2%
Bad Debt	440,325,680	497,142,568	12.9%	2.1%
Operating Margin	4.20	4.16	-0.8%	
Total Margin	5.42	5.61	3.6%	

## Featured Topic

### A brief explanation of utilization information

The quarterly database collects several utilization figures aside from discharges and patient days. These are emergency department visits, inpatient and outpatient surgeries, and number of admissions from the emergency department, home health visits, observation visits and all other visits.

The chart below shows emergency room visits and observation visits. Both volume indicators show recent history of significant percentage increases over the prior year. Emergency room visits are a count of unique visits by patients to the community hospitals' emergency department. The change in volume can usually be attributed to change in population, change in number of insured, public health efforts or other effects. Observation rooms are a count of unique stays in a special unit which allows observation from one hour up to three days or more depending on the situation or payer. Changes in volume can be attributed to changes in reimbursement, payer requirements, medical treatment protocol, population and other effects.

### Emergency Room Visits

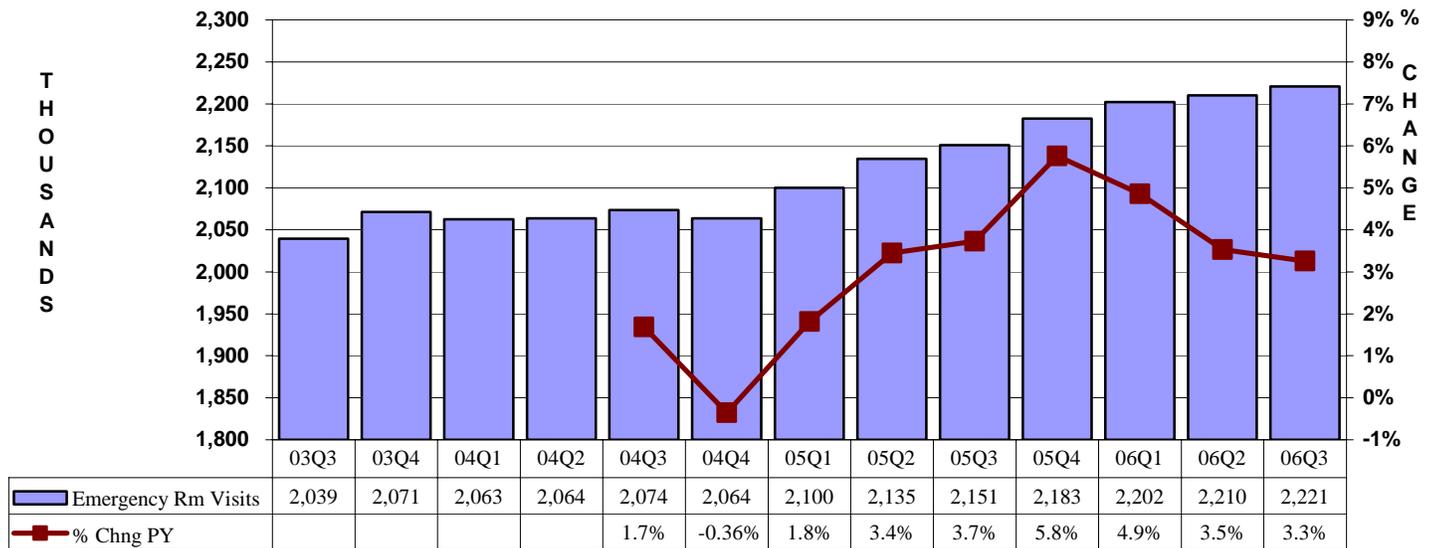


Chart: Emergency room visits had a significant increase starting the first quarter of 2005 with a recent peak of 5.8% in the fourth quarter of 2005. 2,221,000 visits equal about 6,100 visits statewide every day of the week.

### Observation Visits

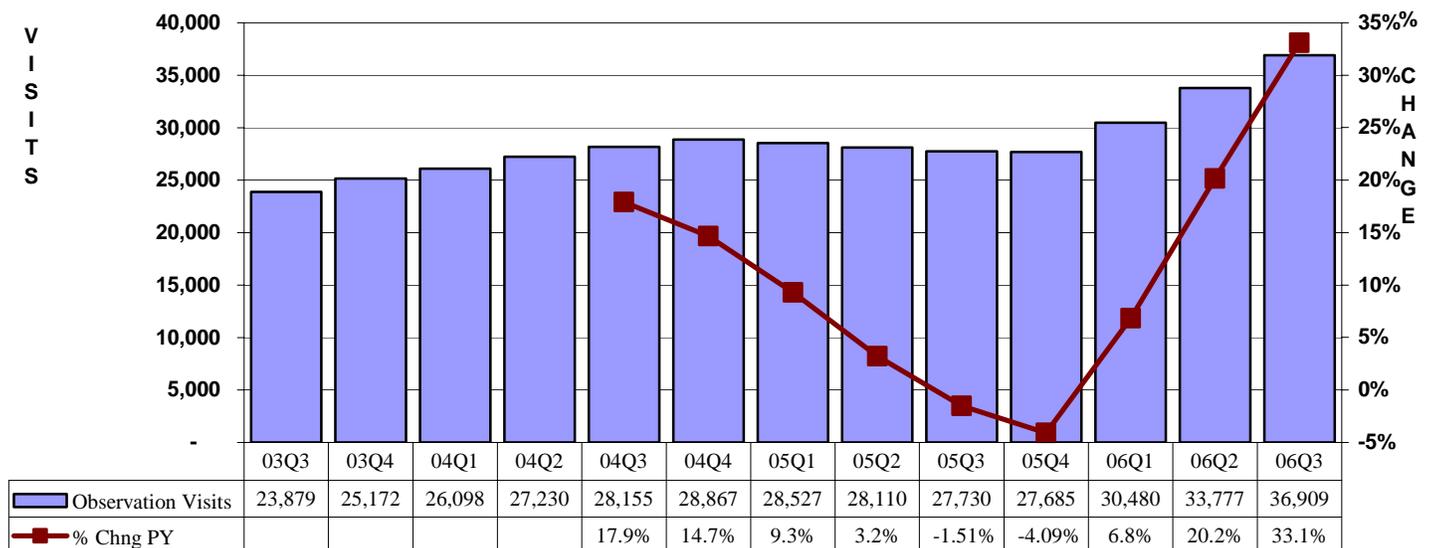


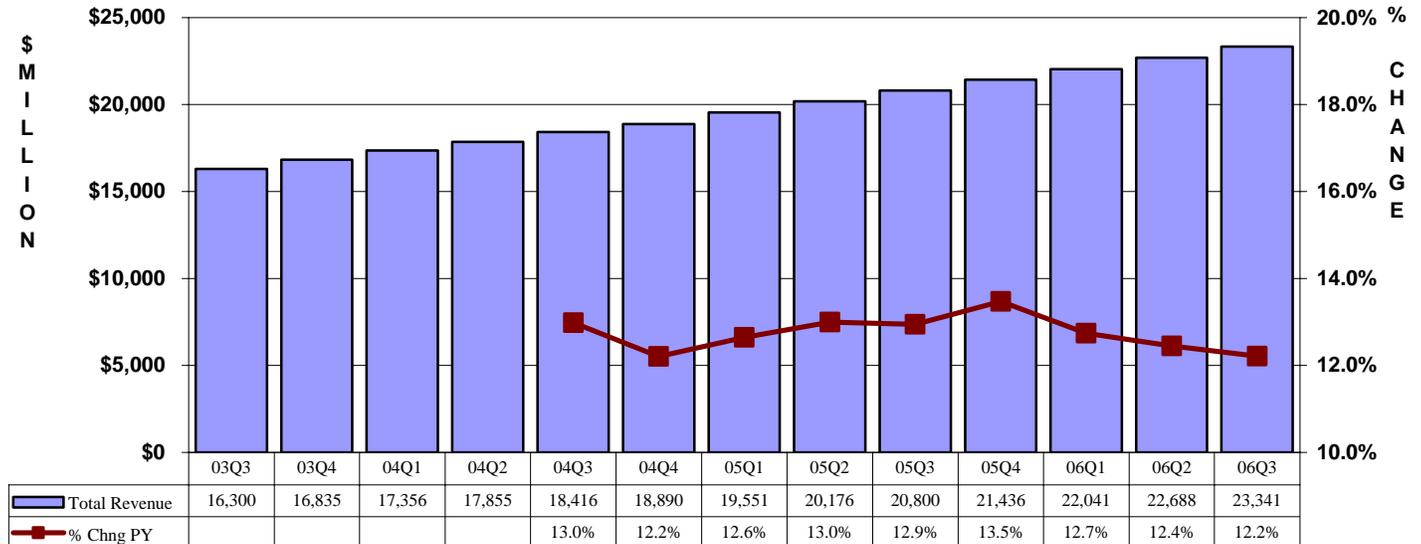
Chart: Observation visits had a significant up TUR starting the first quarter of 2006. We do not have information on the length of stay of these observation visits however even 35,000 visits is about 95 a day.

## FINANCIAL INDICATORS

### Total Patient Service Revenue

Total billed charges for patient services, which is identified as total patient service revenue or total revenue, increased by \$2.5 billion from \$20.8 billion to \$23.3 billion for the period ending September 30, 2006. The billed charges are based on common billing charge sheets that the hospital uses for all patients regardless of the payer and regardless of any contractual adjustments.

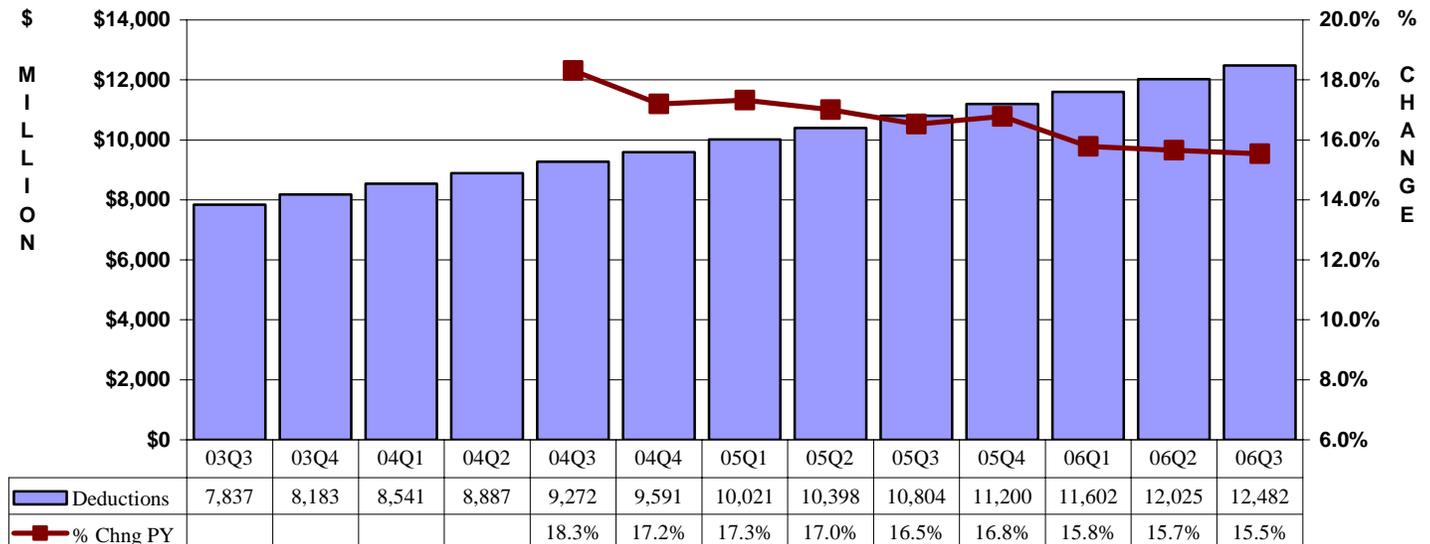
### Total Patient Service Revenue



### Total Deductions from Revenue

For the twelve months ended September 30, 2006 total deductions from revenue reached \$12.5 billion. This was an increase of \$1.6 billion, or 15.5% over the previous period ending September 30, 2005. Total deductions include contractual adjustments and charity care. Deductions are the difference between what the hospital billed and what they were paid.

### Total Deductions from Revenue

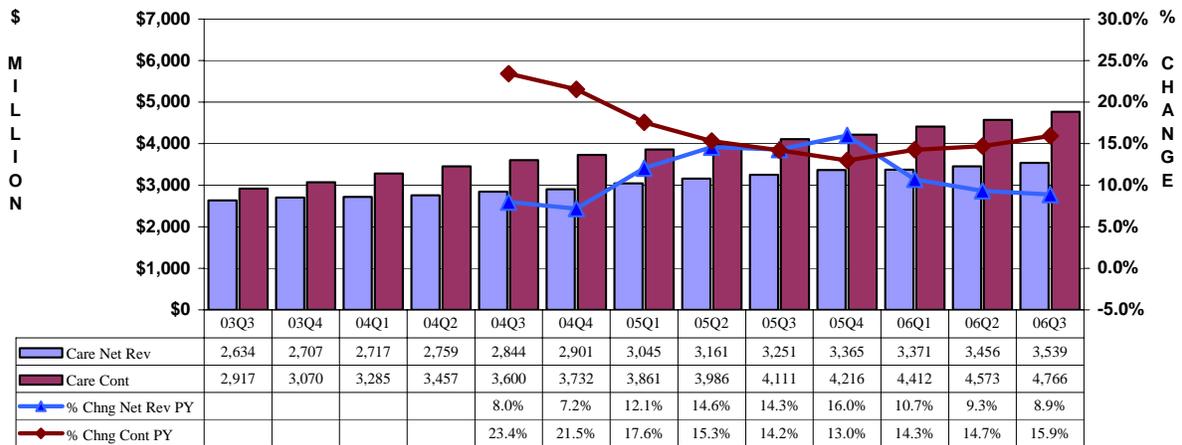


### Contractual Adjustments

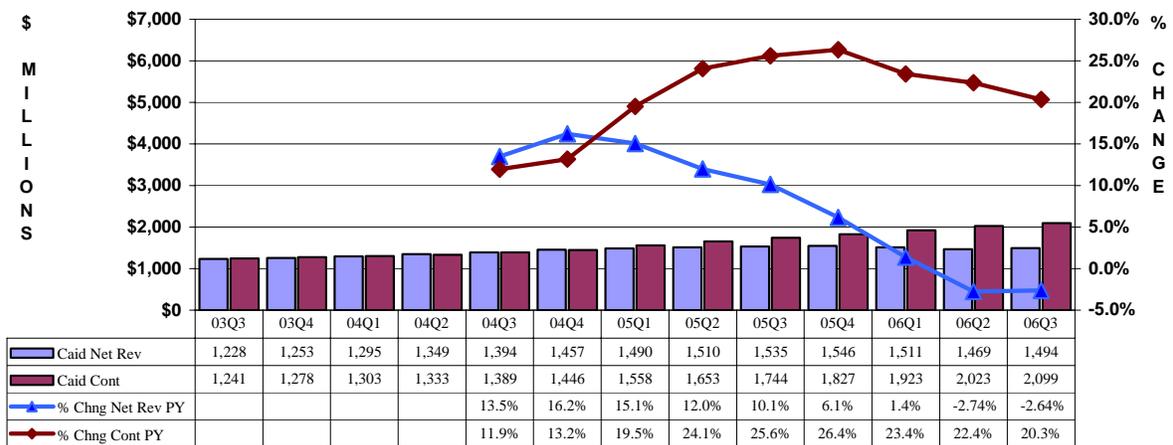
Contractuals, the most significant part of deductions from revenue, vary by payer. Below are three graphs, one for each payer, Medicare, Medicaid and Other. The three graphs are set up so you can see the relative size of the contractual adjustments and the net revenue by payer. The chart shows net revenue and contractuals and the percentage change for each over the prior year period. Other payer has the largest portion of net revenue, \$6.314 billion and deductions of \$5.077 billion. Medicare's net revenue of \$3.508 billion

is much less than Other however the contractals are similar to Other at \$4.740 billion. Medicaid net revenue was \$1.487 billion and deductions were \$2.088 billion.

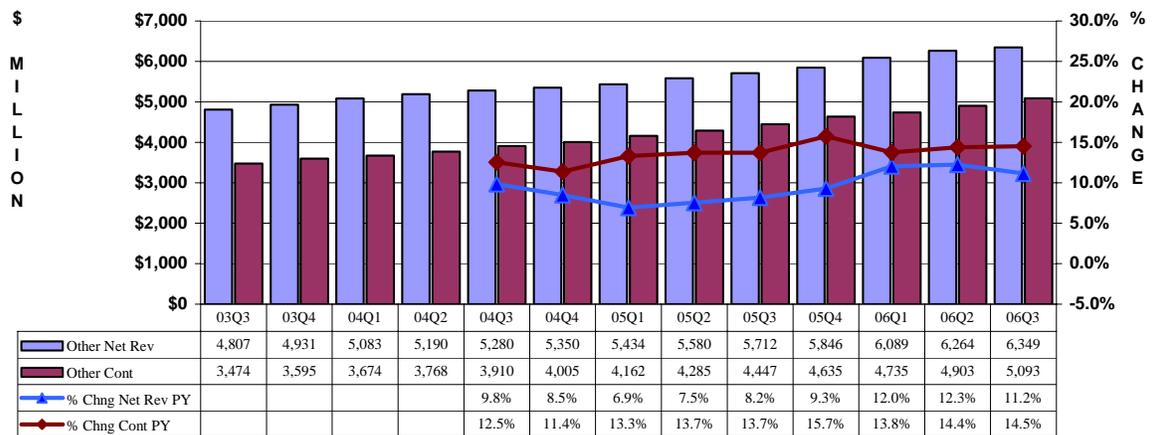
### Medicare Contractuals



### Medicaid Contractuals



### Other Contractuals



### 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 expenses, they are 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. During this four quarter cycle, charity care has grown by 11.2% and bad debt has increased by 3.3%, for a total increase in uncompensated care of 7.3%.

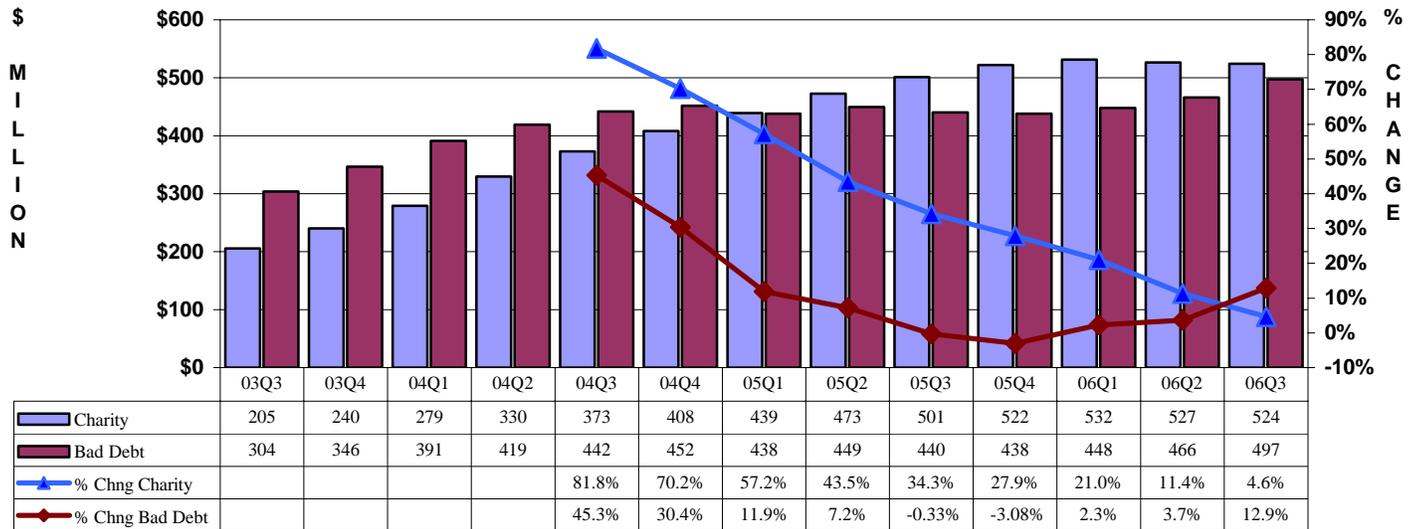
## Charity

While charity care is only 2.32% of billed revenue, the dollar amount and percentage had been growing very rapidly during the past five years. During the year ending September 30, 2006 period, charity care increased 4.6% or \$53.0 million over the previous year. Even though the increase was moderately large, it is the smallest increase in several years.

## Bad Debt

The bad debt dollar amount has grown from \$440 million for the four quarters ending September 30, 2005 to \$497 million for the period ending September 30, 2006 which is a 12.9% increase. This is the largest increase since the fourth quarter of 2004. Bad debt total dollars have been less than those of charity care since the period ending March 31, 2005. Prior to that time bad debt always was a larger dollar amount.

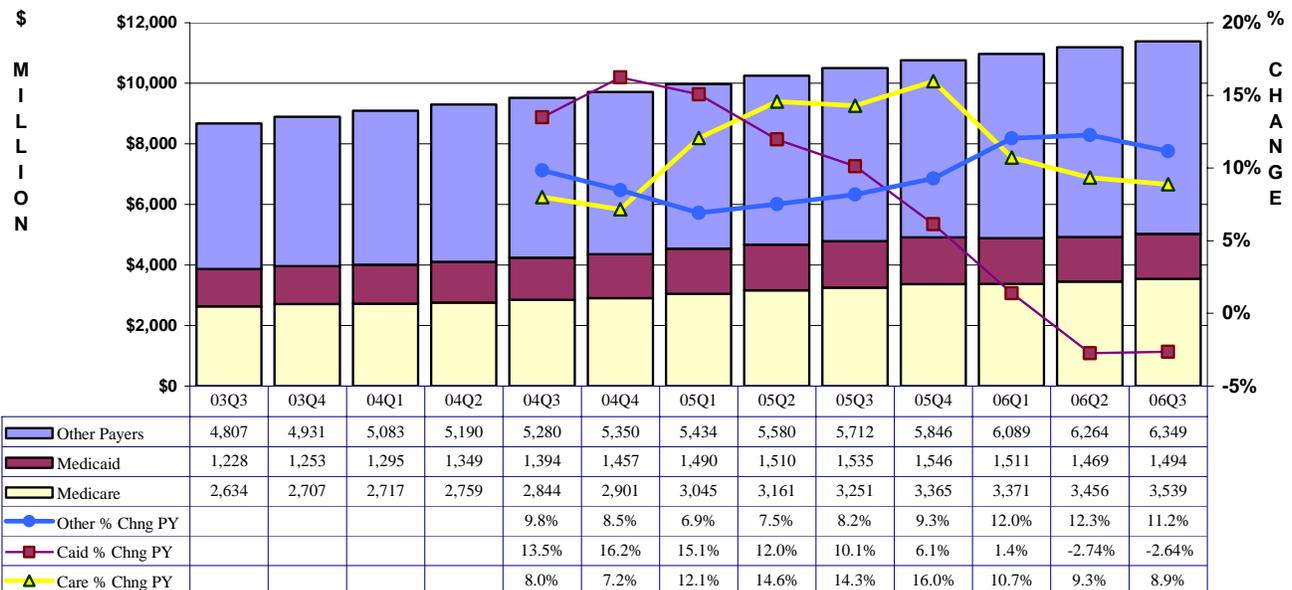
### Charity and Bad Debt



## Net Patient Services Revenue

During the twelve month period ended September 30, 2006 net patient service revenue grew by 8.8%, or \$859 million, from \$9.8 billion to \$10.6 billion. Other payer continues its strong percentage and dollar growth (12.1%, \$673 million).

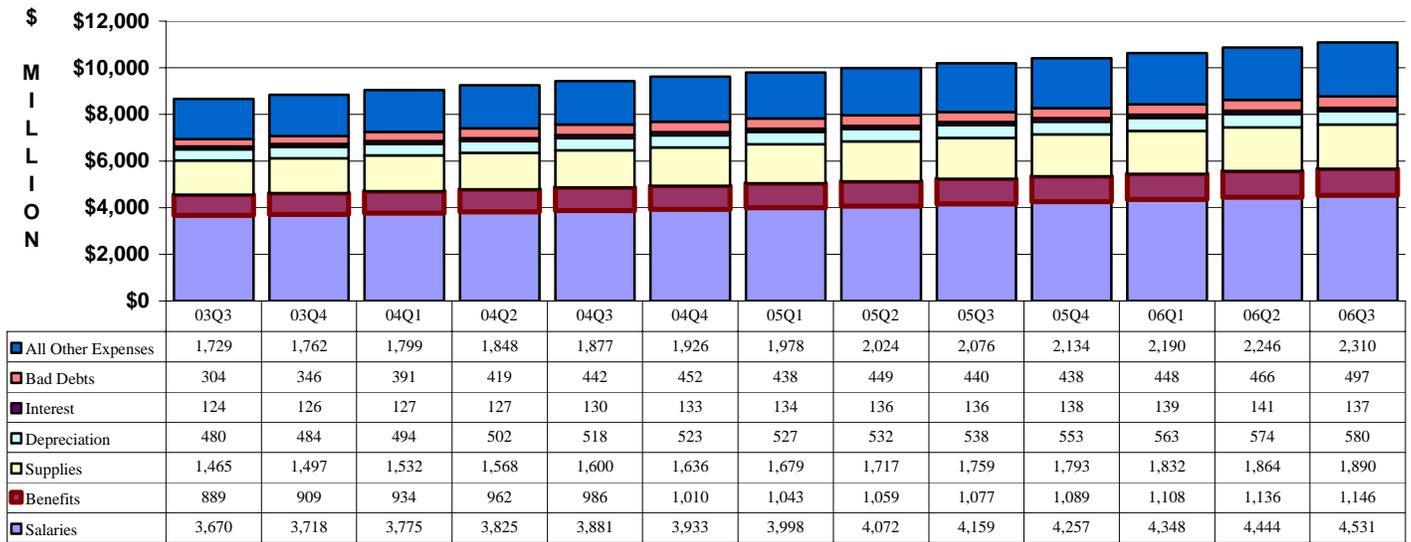
### Net Patient Service Revenue by Payer



## Operating Expenses

Operating expenses are the costs of making health care services available to hospital patients. Growing by 8.8%, or \$904 million, operating expenses reached \$11.1 billion in the twelve month period ended September 30, 2006. Adjusted discharges increased 4.1% during the same time period. Please see the adjusted discharge section for more information. Operating expenses per adjusted discharge increased by 4.5%. The 4.5% increase exceeded the 2.1% annual increase in the overall United States consumer price index but was less than the 7.3% annual increase in the United States hospital services component of the index for the same time period of September 2005 to September 2006. The increase of fuel costs in the previous quarter had caused the overall consumer price index to be higher than the hospital index which is rare. Fuel prices dropped significantly in the third quarter and overall consumer price index also dropped. The federal consumer price index is at this link <ftp://ftp.bls.gov/pub/news.release/History/cpi.10182006.news>. Below the operating expense chart is a chart of the consumer price index and hospital component that matches the time frame of this report.

### Operating Expense



### United States Consumer Price Index change from previous year (Overall vs. Hospital)

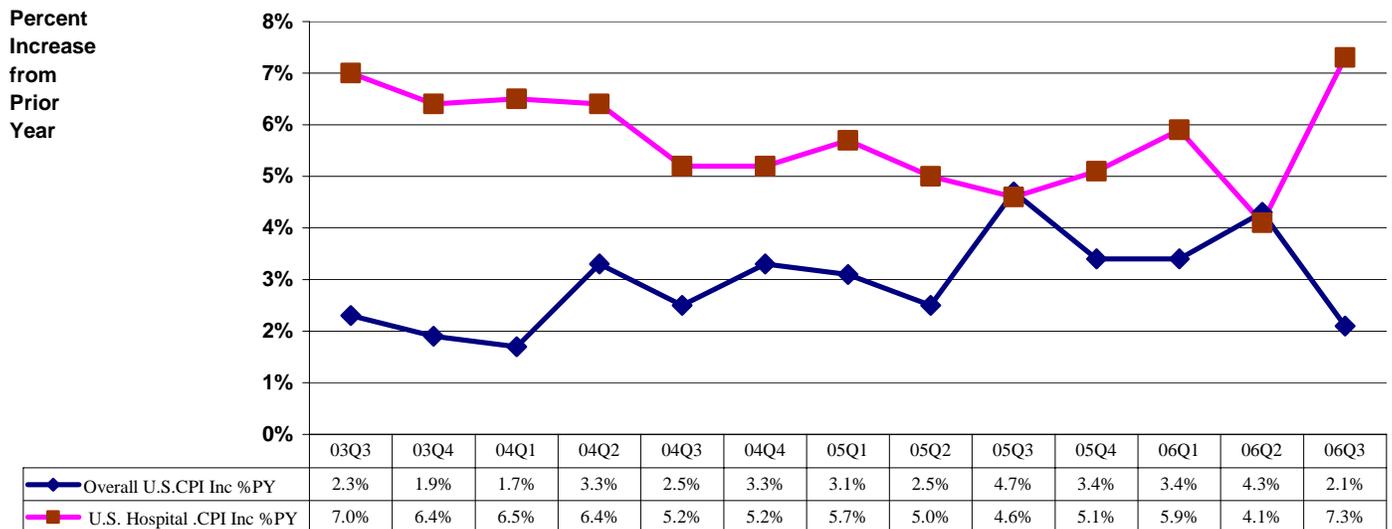
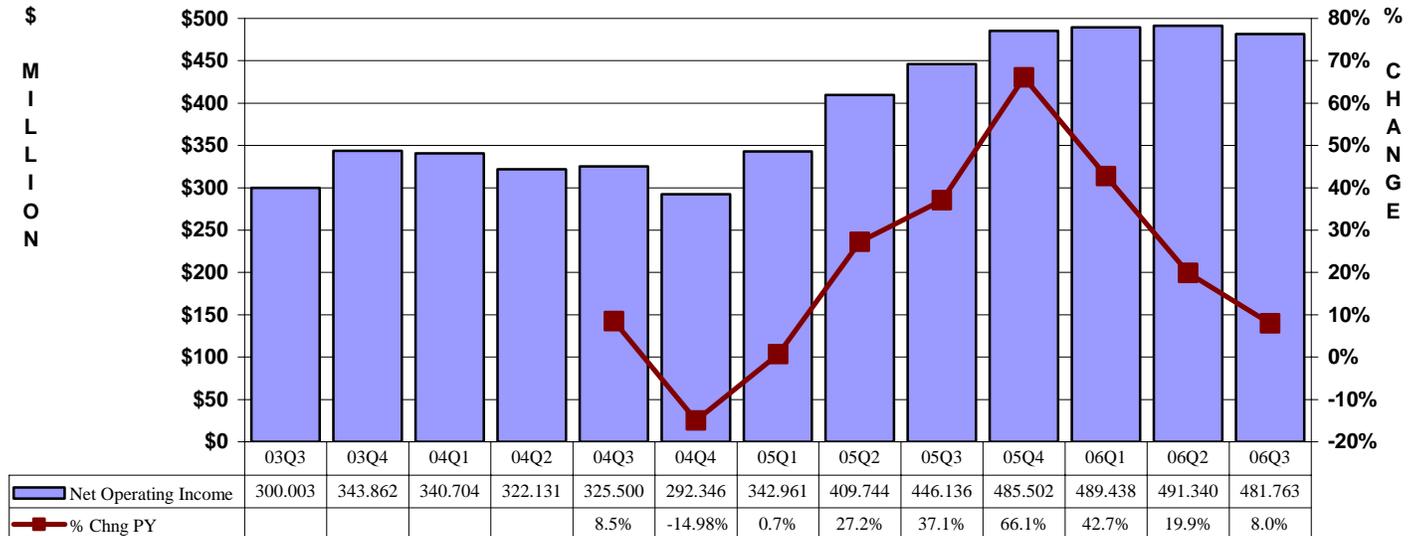


Chart: The consumer price index listed is for the last month of the quarter compared to the same month of the previous year.

## Net Operating Income

During the four quarters ended September 30, 2006 net operating income improved slightly to \$482 million, which was up 8.0% over the year ago level. Net operating income is volatile due to the large dollars that are involved in the calculation. A small change in the ratio of operating income, which grew 8.839% and operating expense, which grew 8.876%, caused the 8.0% change in net operating income. Net operating income includes other operating income.

### Net Operating Income

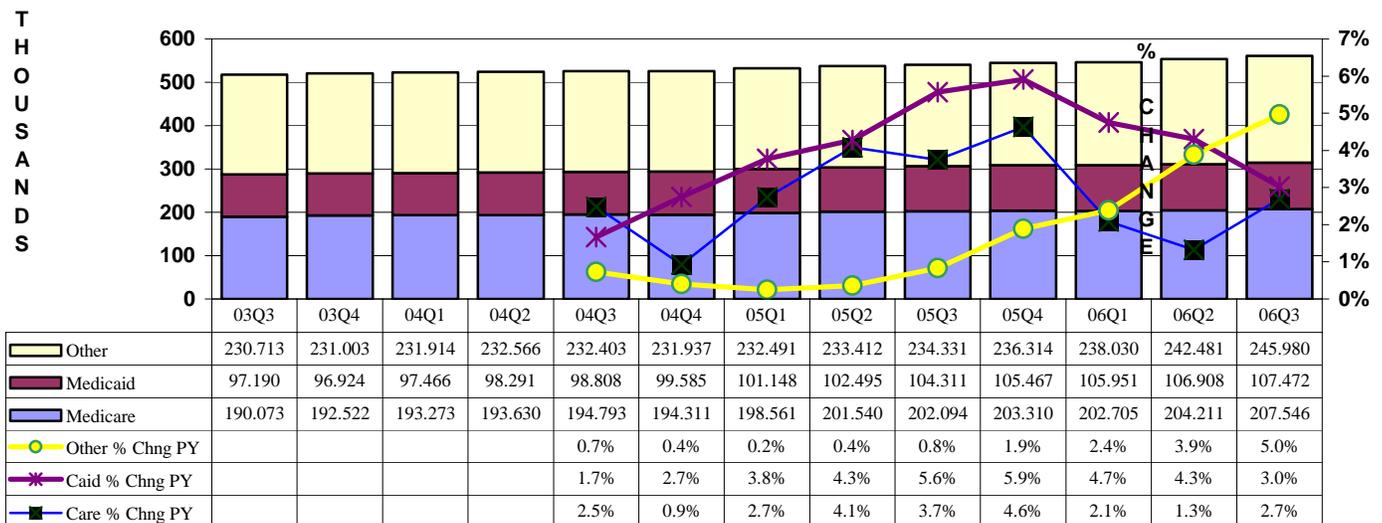


## UTILIZATION INDICATORS

### Discharges

Discharges and patient days are the primary indicators of inpatient activity. Discharges continued to grow, reaching a total of 560,998 discharges during the four quarters ending September 30, 2006. This was a gain of 20,262 discharges, or 3.7%, over the corresponding 2005 period. Medicaid had significantly larger growth percent than Other and slightly more than Medicare.

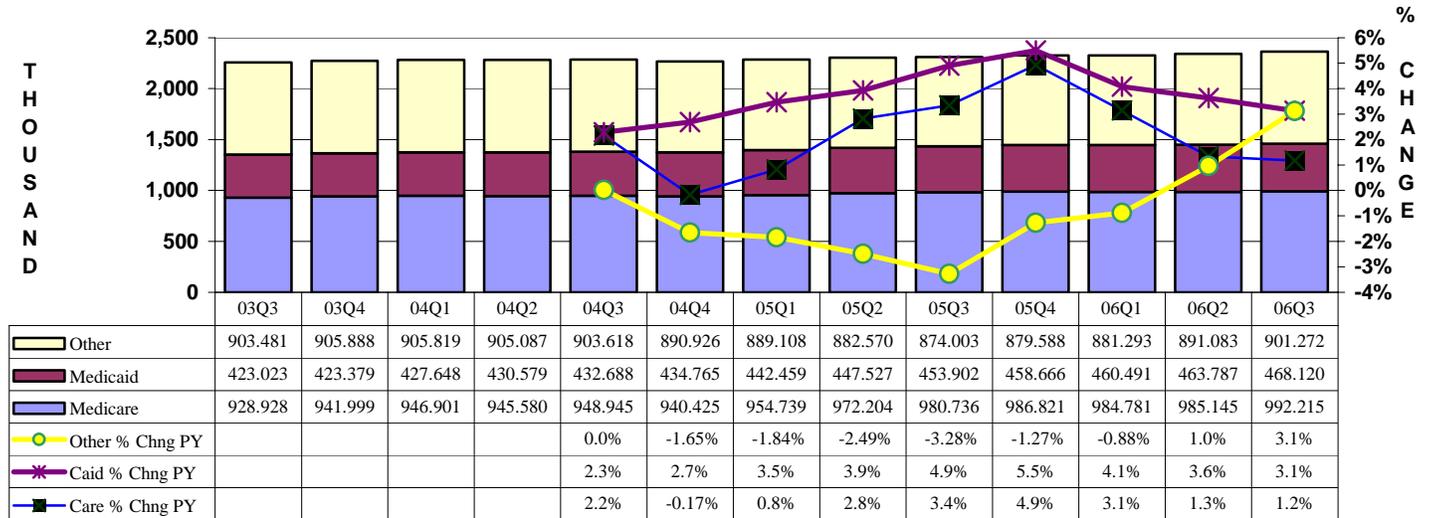
### Discharges by Payer



## Patient Days

Patient days also continued to grow, reaching a total of 2,361,607 during the four quarters ending September 30, 2006. This was a gain of 52,966 patient days, or 2.29%, over the corresponding year ago period.

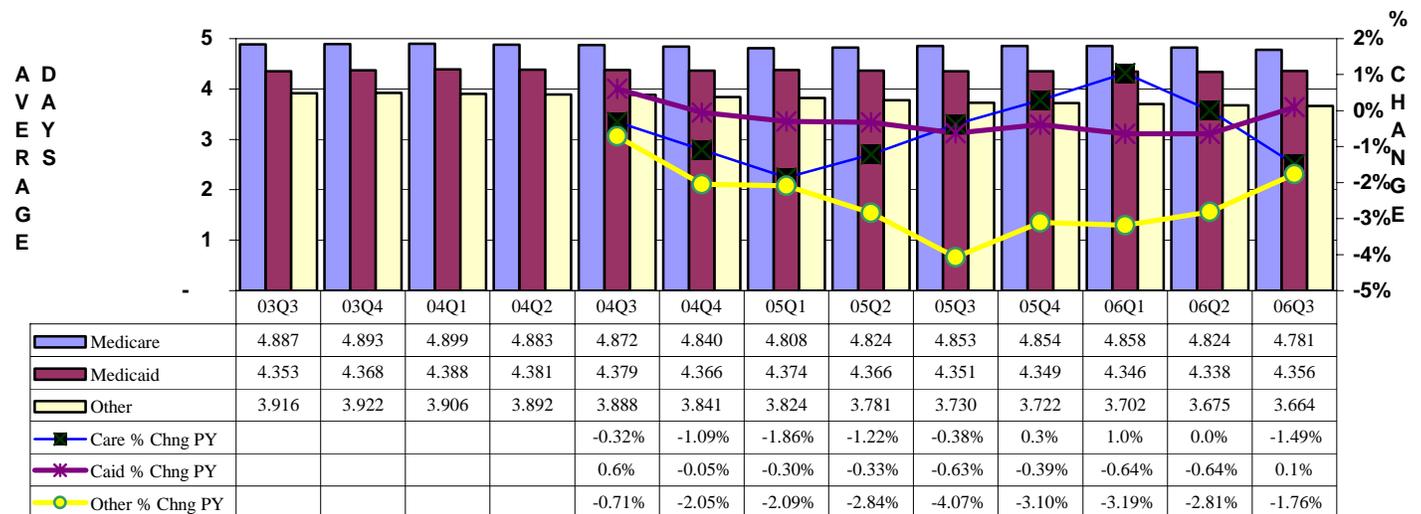
## Patient Days by Payer



## Length of Stay

For the four quarters ending September 30, 2006 statewide average length of stay declined slightly to 4.21 days, or 1.0%. Statewide average length of stay (ALOS) had remained in the range of 4.37 days to 4.21 days from calendar year 1995 through 2006 second quarter. During the four quarters ended September 30, 2006 the average length of stay has declined by .04 days from the previous period ending September 30, 2005. In the latest period, Medicare average length of stay was 4.83, Medicaid was 4.34 and Other was 3.68. Medicare ALOS was 11.2% higher than Medicaid and 31.3% higher than Other payer.

## Length of Stay by Payer

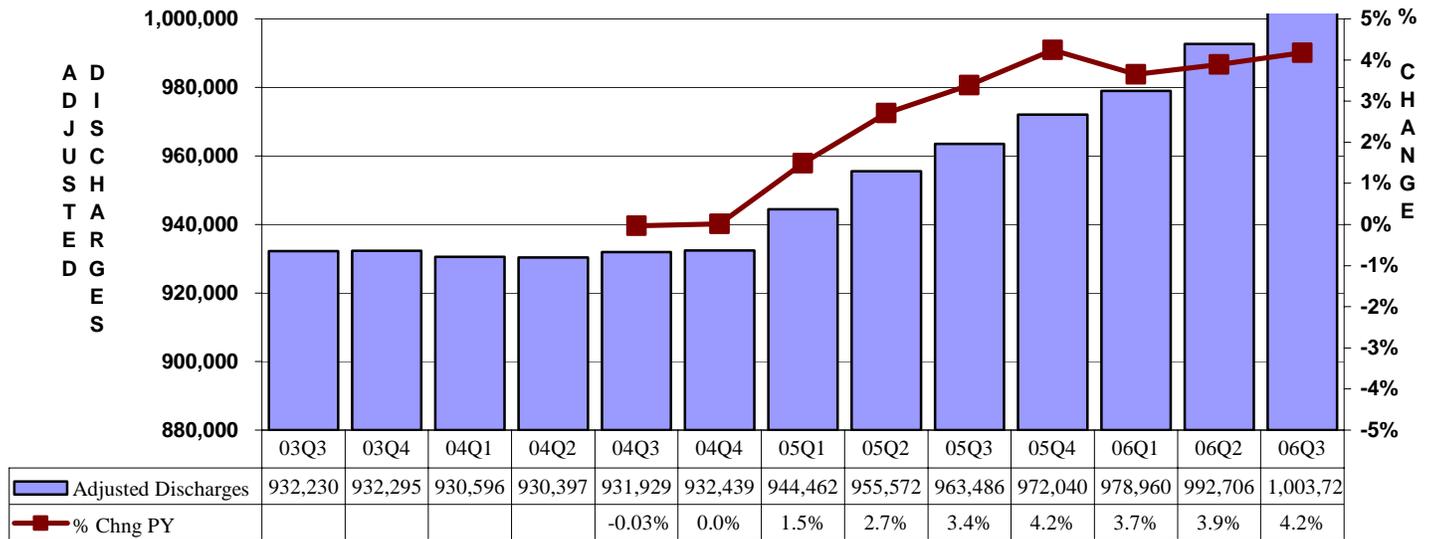


## Adjusted Discharges

Adjusted discharges reached a total of 990,477 in the four quarter period ended September 30, 2006. This was an increase of 40,235 adjusted discharges, or 4.2%, from the four quarter period ended September 30, 2005. The percentage increase was the same as the previous period. Adjusted discharges were created as a

proxy for total hospital volume since discharges only count inpatients. Adjusted discharges, within the quarterly system, are calculated by increasing discharges by the percent of inpatient revenue to total revenue.

### Adjusted Discharges

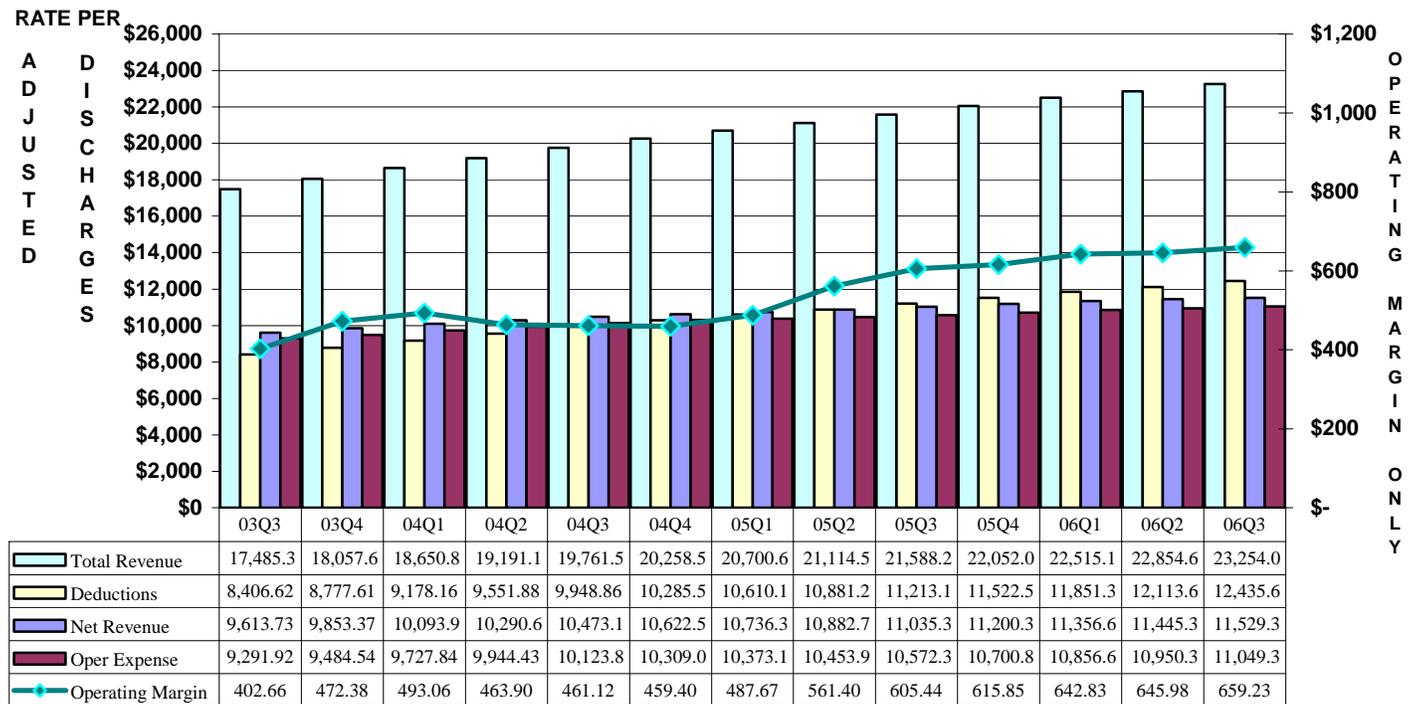


### OPERATING INDICATORS

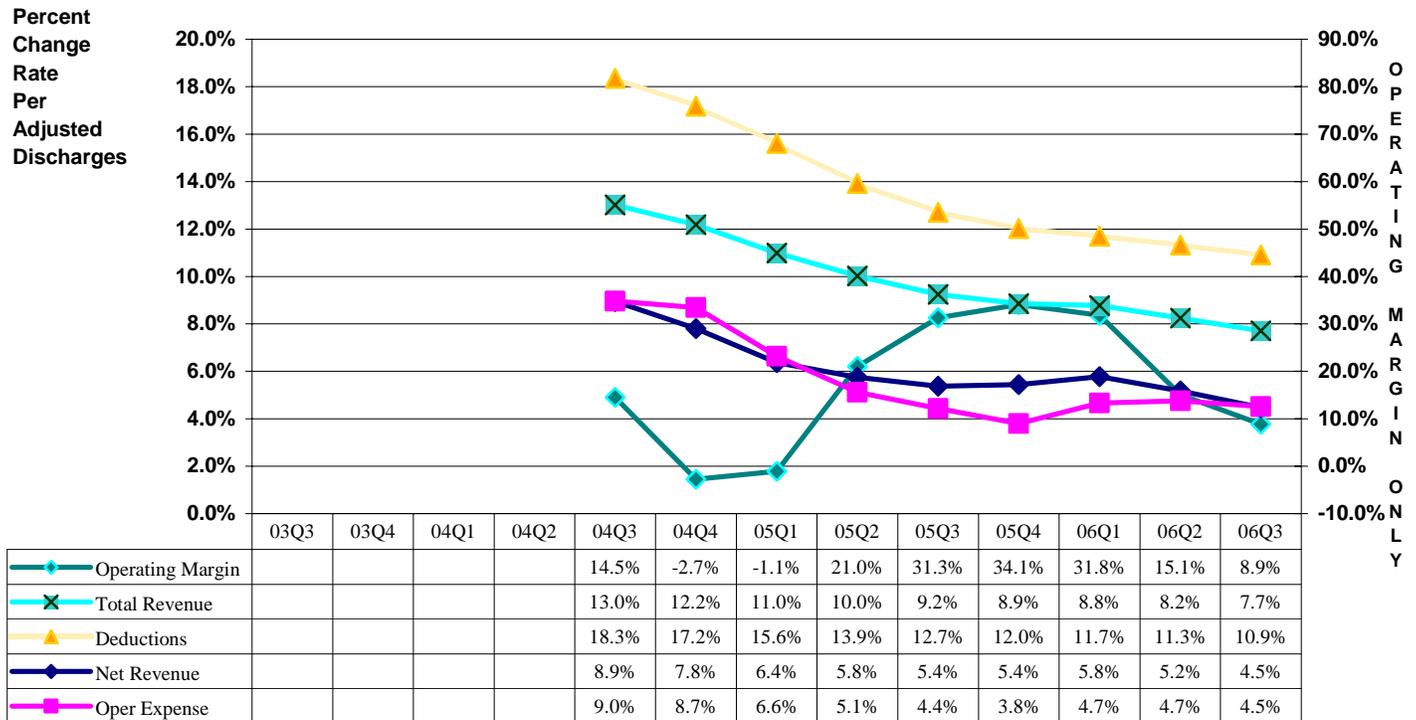
#### Rates per Adjusted Discharge

When you take the total dollar amounts for various categories and divide by the adjusted discharge count, you get an average rate per adjusted discharge. This formula removes volume fluctuation from the review and makes it easier to look at other factors. While the dollar amount of rates continues to rise each period, the percentage increase is on a slight downward swing, except for net profit which is currently on a rise. Note the continued large increase of deductions as it becomes a bigger number than net revenue. Total or billed revenue is becoming less relevant each year as it is now more than twice the actual dollar amount collected.

#### Rate per Adjusted Discharge



## Rate per Adjusted Discharge – Percentage Change from Previous Period



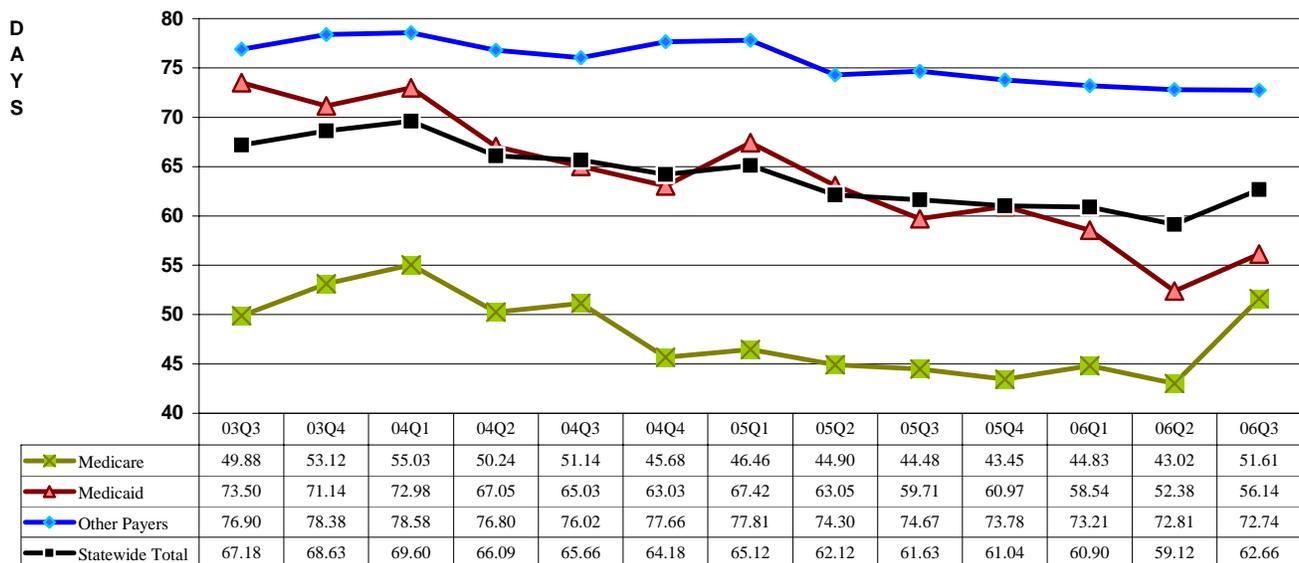
## FINANCIAL RATIOS

The relationships between financial indicators are reflected by financial ratios. 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

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. Shorter days or smaller numbers are more desirable.

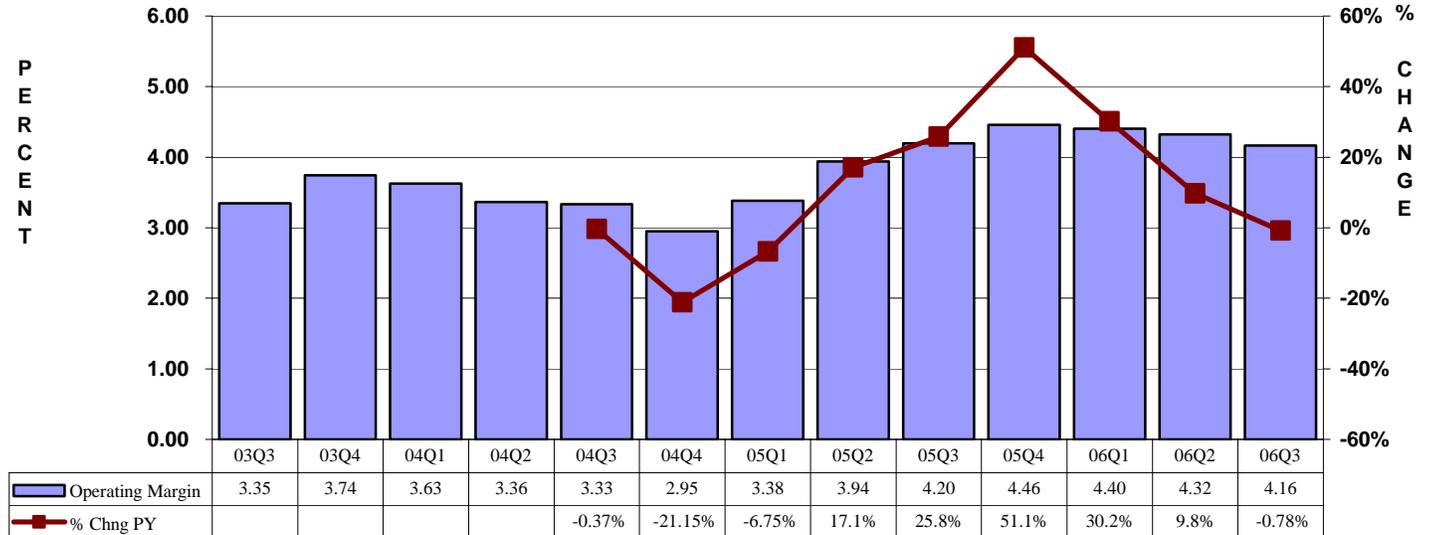
### Days in Accounts Receivable by Payer



## Operating Margin

During the twelve month period ended September 30, 2006 operating margin declined to 4.16%, The current period is slightly below the recent high level of 4.46 which is from the four quarters ending December 31, 2005. The low was 1.4% for the four quarters ending December 31, 2000. Operating margin includes patient revenue and other operating revenue.

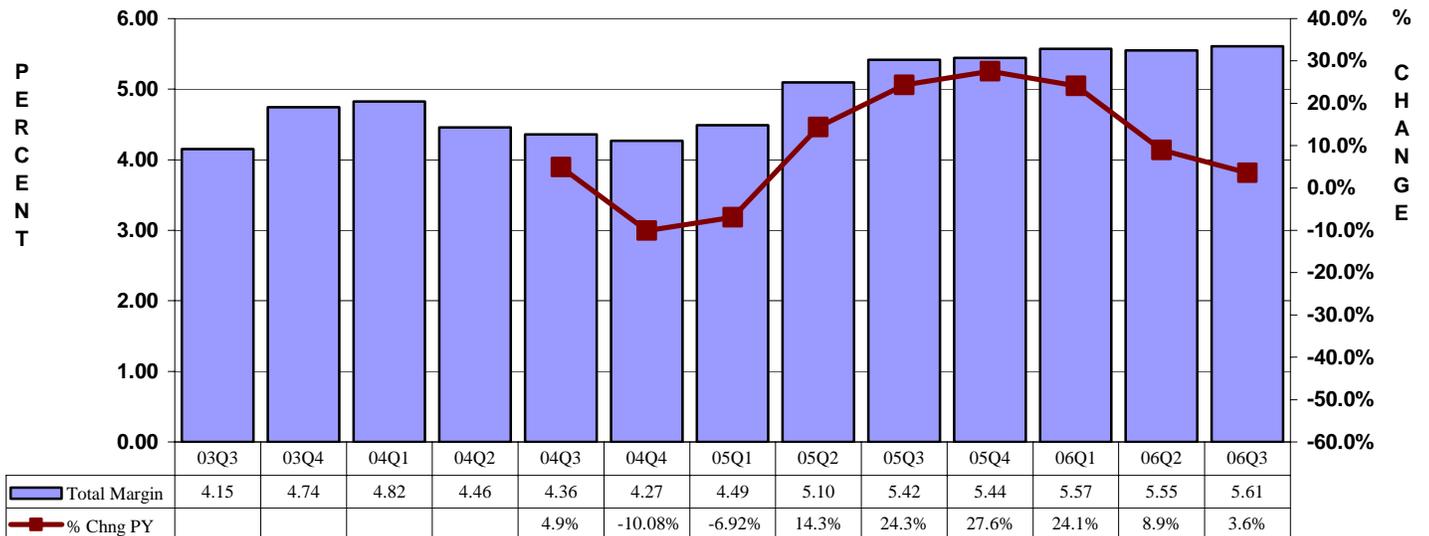
### Operating Margin



## Total Margin

During the twelve month period ending September 30, 2006 total margin reached 5.61%, which was 3.6% above the year earlier level. The recent low ratio of 1.9% was for the year 2000. Total margin includes operating margin plus extraordinary items, federal income taxes and non operating income.

### Total Margin



## Deductible Proportion

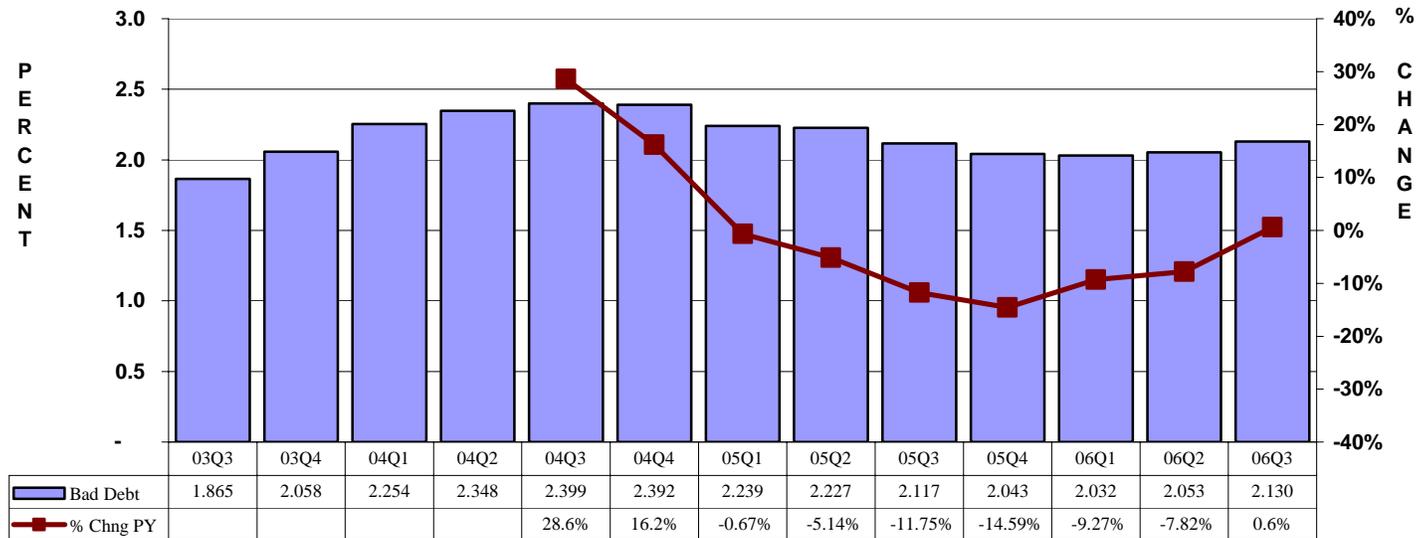
### Uncompensated Care Proportion

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. The total uncompensated care proportion declined to 4.375%, which was a decline of 3.3% over the previous year ration of 4.525.

### Bad Debt

In the four quarter period ended September 30, 2006, the bad debt proportion reached 2.135%, which was an increase of 0.6% from the previous year. There were six periods of decreases prior to this period ending September 30, 2006.

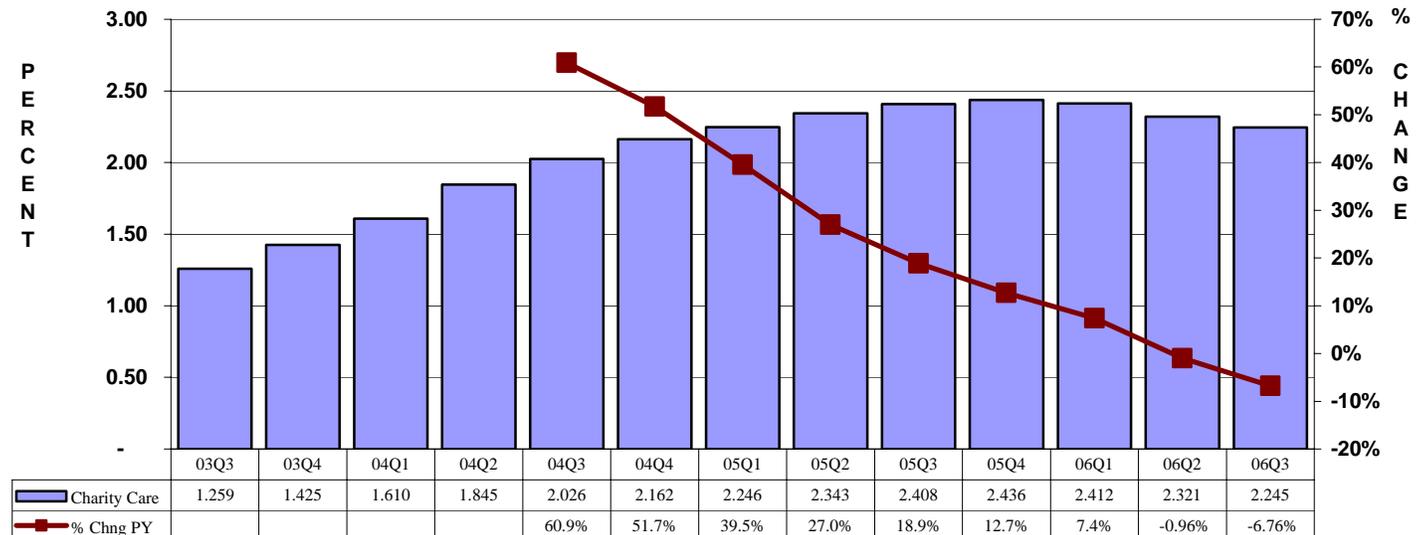
#### Bad Debt as a Percent of Total Revenue



### Charity Care

The charity care proportion reached 2.245%, which was a decrease of 6.7% over the previous year. This was the second decline in a row for a category which has had significant increases lately.

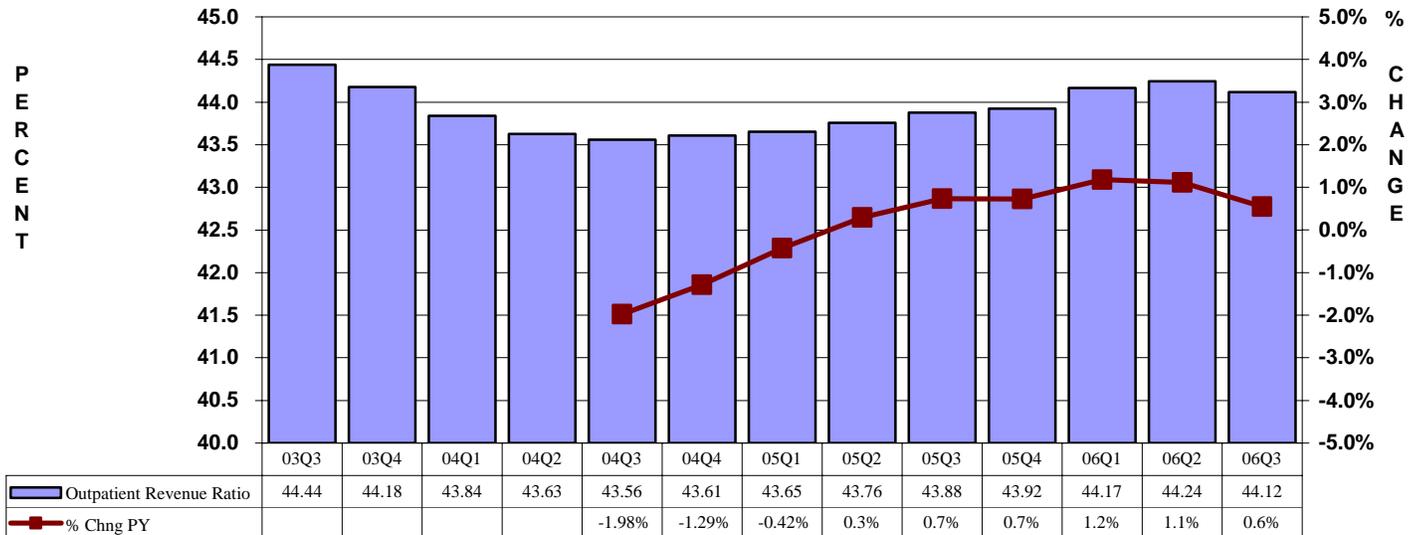
#### Charity Care as a Percent of Total Revenue



## Inpatient and Outpatient Revenue

The outpatient revenue percentage is a way of looking at the relationship between inpatient and outpatient revenue. It is a rough indicator of the change in treatment locations. Between the annual periods ended September 30, 2005 and September 30, 2006 the outpatient revenue percentage increased from 43.9% to 44.2% of total patient revenue, or 0.6%.

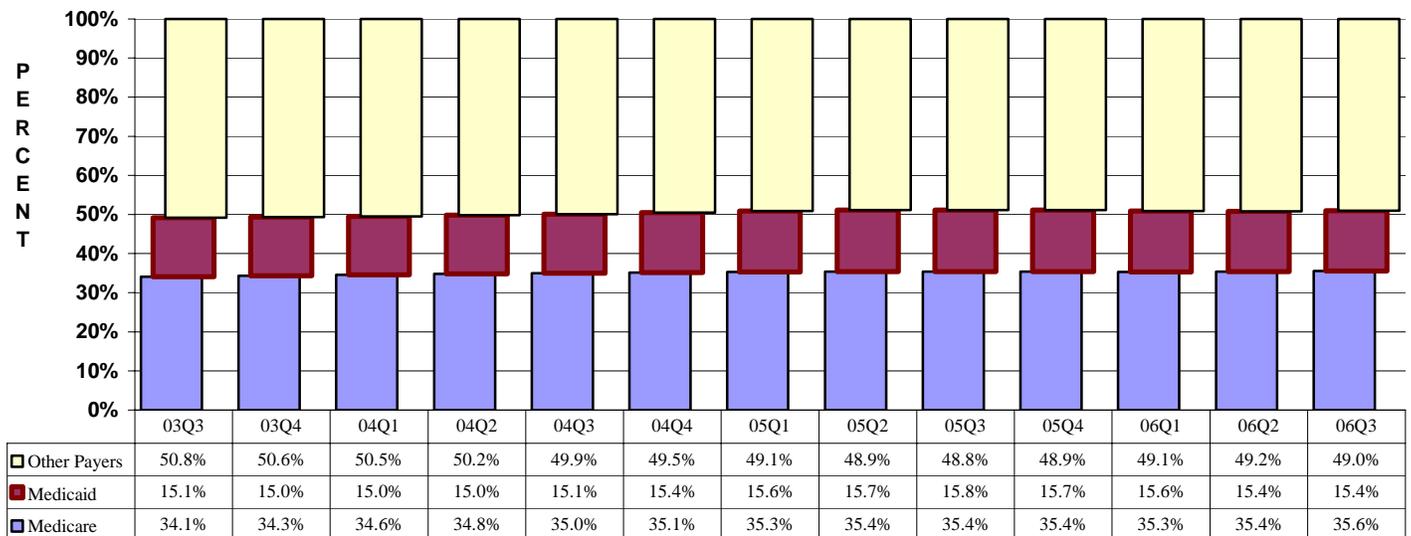
### Outpatient Revenue as a percent of Total Revenue



## Medicare, Medicaid and Other Revenue

The Medicare billed revenue percentage and the Medicaid billed revenue percentage indicate the proportion of total hospital business that these programs represent. In the four quarter period ended September 30, 2006 the Medicare percentage was 35.6%. By providing 51.0% of total patient service revenue, the reimbursement policies of the Medicare and Medicaid programs have a major influence on the financial health of hospitals.

### Revenue proportion by Payer



HOSPITAL PERFORMANCE STATEWIDE	12 Mo. Ended Sept 30 2005	12 Mo. Ended Sept 30 2006	Total Change	Percent Change
<b>Total Patient Revenue</b>				
Inpatient	11,673,536,690	13,045,477,121	1,371,940,431	11.75%
Outpatient	9,126,425,542	10,297,534,982	1,171,109,440	12.83%
Total	20,799,962,232	23,343,012,103	2,543,049,871	12.23%
Medicare	7,362,076,297	8,305,406,258	943,329,961	12.81%
Medicaid	3,279,017,875	3,593,306,278	314,288,403	9.58%
Other	10,158,868,060	11,441,859,997	1,282,991,937	12.63%
<b>Deductions From Revenue</b>				
Contractual Adjustments				
Medicare	4,111,414,009	4,766,068,911	654,654,902	15.92%
Medicaid	1,744,464,671	2,099,243,971	354,779,300	20.34%
Other	4,446,920,315	5,092,505,371	645,585,056	14.52%
Total	10,302,798,995	11,957,818,253	1,655,019,258	16.06%
Charity	500,879,058	524,088,665	23,209,607	4.63%
Total	10,803,678,053	12,481,906,918	1,678,228,865	15.53%
<b>Uncompensated Care</b>				
Bad Debt	440,325,680	497,142,568	56,816,888	12.90%
Charity	500,879,058	524,088,665	23,209,607	4.63%
Total	941,204,738	1,021,231,233	80,026,495	8.50%
<b>Net Patient Revenue</b>				
Medicare	3,250,662,288	3,539,337,347	288,675,059	8.88%
Medicaid	1,534,553,204	1,494,062,307	(40,490,897)	-2.64%
Other	5,711,947,745	6,349,354,626	637,406,881	11.16%
Total	9,996,284,179	10,861,105,185	864,821,006	8.65%
Other Operating Revenue	636,155,352	713,561,610	77,406,258	12.17%
<b>Total Operating Revenue</b>	<b>10,632,439,531</b>	<b>11,574,666,795</b>	<b>942,227,264</b>	<b>8.86%</b>
<b>Total Operating Expenses</b>	<b>10,186,303,996</b>	<b>11,090,463,987</b>	<b>904,159,991</b>	<b>8.88%</b>
<b>Net Operating Income</b>	<b>446,135,535</b>	<b>484,202,808</b>	<b>38,067,273</b>	<b>8.53%</b>
Non-Operating Income	120,527,027	148,752,675	28,225,648	23.42%
Tax Revenue	16,666,291	28,726,977	12,060,686	72.37%
<b>Net Total Income</b>	<b>583,328,853</b>	<b>661,682,460</b>	<b>78,353,607</b>	<b>13.43%</b>
<b>Gross Accounts Receivable</b>				
Medicare	897,089,734	1,174,414,726	277,324,992	30.91%
Medicaid	536,402,034	552,644,256	16,242,222	3.03%
Other	2,078,389,901	2,280,075,356	201,685,455	9.70%
Total	3,511,881,669	4,007,134,338	495,252,669	14.10%
<b>Days in Accounts Receivable</b>				
Medicare	44.5	51.6	7.1	16.04%
Medicaid	59.7	56.1	(3.6)	-5.98%
Other Payers	74.7	72.7	(1.9)	-2.60%
Statewide Total	61.6	62.7	1.0	1.68%
<b>Utilization</b>				
Discharges	540,736	560,998	20,262	3.75%
Patient Days	2,308,641	2,361,607	52,966	2.29%
Length of Stay	4.27	4.21	(0.06)	-1.40%
Adjusted Discharges	963,486	1,003,721	40,235	4.18%
<b>Rates per Adjusted Discharge</b>				
Total Revenue	21,588.24	23,256.48	1,668.25	7.73%
Deductions	11,213.11	12,435.64	1,222.52	10.90%
Net Revenue	11,035.39	11,531.76	496.38	4.50%
Operating Expense	10,572.34	11,049.35	477.01	4.51%
Net Margin	605.44	659.23	53.79	8.89%
<b>Financial Ratios</b>				
Operating Margin	4.20	4.16	(0.03)	-0.78%
Total Margin	5.42	5.61	0.19	3.59%
Deductible Proportion	51.94	53.48	1.54	2.96%
Contractual Proportion - Total	49.53	51.23	1.70	3.43%
Contractual Proportion - Medicare	55.85	57.39	1.54	2.76%
Contractual Proportion - Medicaid	53.20	58.42	5.22	9.81%
Contractual Proportion - Other	43.77	44.51	0.73	1.68%
Bad Debt Proportion	2.12	2.13	0.01	0.61%
Charity Proportion	2.41	2.25	(0.16)	-6.76%
Uncompensated Care Proportion	4.53	4.38	(0.15)	-3.31%
Total Revenue/Inpatient Revenue	1.78	1.79	0.01	0.41%
Outpatient Revenue Percent	43.88	44.12	0.24	0.55%
Medicare Revenue Percent	35.39	35.58	0.19	0.53%
Medicaid Revenue Percent	15.76	15.40	(0.37)	-2.34%

## Notes:

### Information

For more detailed information you can visit the Department of Health - Hospital and Patient Data web site at <http://www.doh.wa.gov/EHSPHL/hospdata> for a large variety of hospital data and reports. Included are hospital financial data and reports, hospital discharge data and reports, and Charity Care reports. Also included are Directory of Hospitals, CHARS Procedure Manual, *Accounting and Reporting Manual for Hospitals*, Charity Care reports and past *hospTRENDS*.

Your comments and suggestions for improvement would be greatly appreciated. Please let us know what you like or don't like about the content and presentation of the *hospTRENDS* report. Contact information is on the last page.

### 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 information describing emerging hospital utilization and financial trends to all concerned parties.

Rather than 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.

The period covered by this report includes the last quarters of 2005 and the first three quarters of 2006. 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.

## hospTRENDS

*Washington State*

Community Hospital Financial and Utilization Trend Newsletter

Quarter Ended October 31, 2006

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  
101 Israel Road SE  
Post Office Box 47814  
Olympia, WA 98504-7814  
Telephone: (360) 236-4216  
FAX : (360) 664-8579

Electronic Mail: [Ric.Ordos@Doh.Wa.Gov](mailto:Ric.Ordos@Doh.Wa.Gov)

Mary Selecky, Secretary  
Department of Health

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

Teresa Jennings, State Registrar & Director  
Center for Health Statistics

Author: Richard Ordos