

Introduction

The hospTrends Featured Topic this quarter is a discussion and analysis of perspective and the presentation of data. 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 2006. 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 by period had increased between 2.72% and 3.31% for five periods. This period, however, the increase was only 0.5%. Between the periods beginning third quarter 2002 and ending fourth quarter 2004 increases were between 0.38% and 1.68%. Patient days have grown only 1.6% in this period. It had a high of 3.66% for the period ending December 31, 2005 and smaller increases the next two periods. Average length of stay increased to 4.30 and continues what is now a 5 period increase

Deductions from revenue grew at a 17.9% rate, reversing a three period increase, returning to a cycle where deductions had been slightly smaller each period from 2003 until the fourth quarter of 2006. The operating revenue grew slightly faster (8.2%) than operating expenses (8.0%) which translates into an operating margin increase of 12.1% over the previous period. Operating expense grew by 8.0% which is well within the annual percentage change range of the past 10 years which includes a low of 7.5% and a high of 10.9%. Charity care grew at 12.7% compared to recent growth of up to 81.2%. Bad debt continued recent trends with an increase of 21.9%.

Statewide Summary of Quarterly Reports

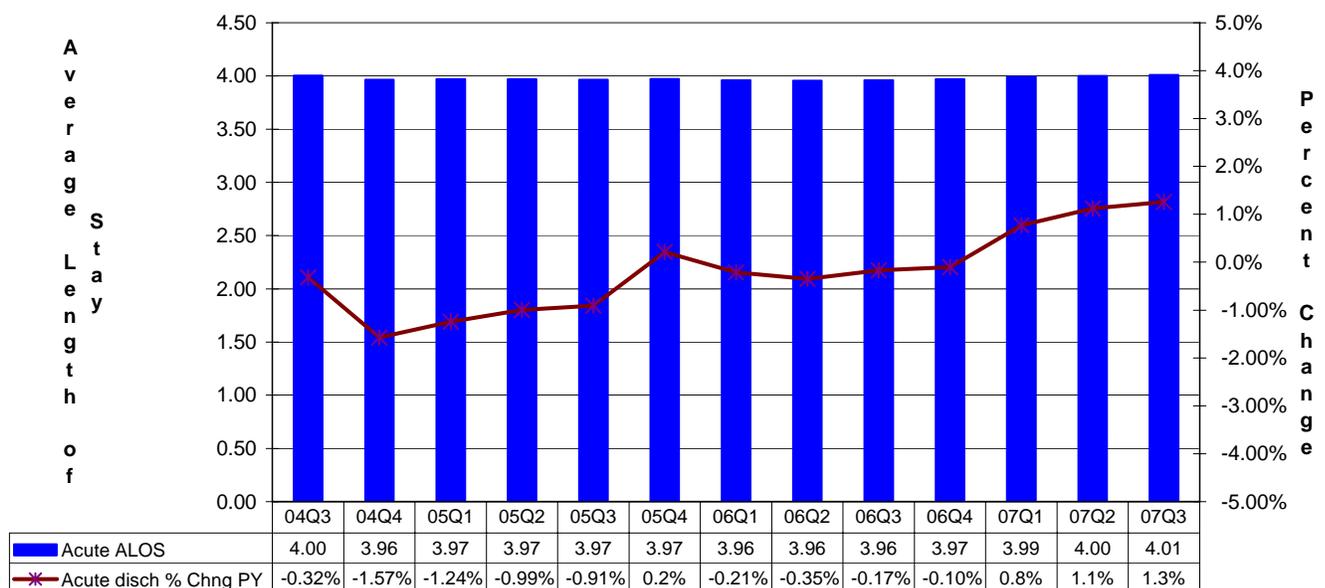
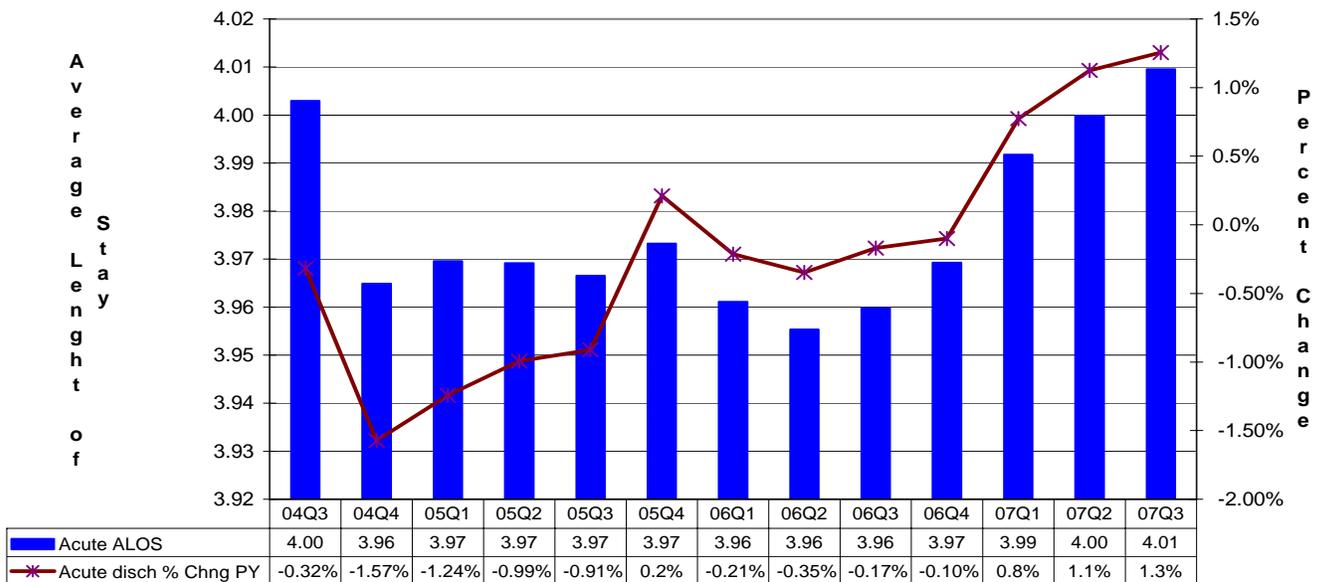
	4 Quarter Period Ending		Percent	2007
	09/30/2006	09/30/2007	Difference	Percent of Tot Rev
Discharges	555,827	558,488	.5%	
Patient Days	2,362,030	2,400,659	1.6%	
Average Length of Stay	4.25	4.30	1.2%	
+ Total Revenue	23,348,415,046	26,513,084,612	13.6%	
- Deductions from Revenue	12,480,058,955	14,710,192,628	17.9%	55.5%
= Net Revenue	10,868,356,091	11,802,891,984	8.6%	44.5%
+ Other Operating Revenue	727,522,386	741,858,963	2.0%	2.8%
= Operating Revenue	11,595,878,477	12,544,750,947	8.2%	47.3%
- Operating Expenses	11,101,745,697	11,990,997,388	8.0%	45.2%
= Operating Margin	494,132,780	553,753,559	12.1%	2.1%
+ Other Income/Tax Revenue	168,262,579	254,347,319	51.2%	1.0%
= Total Margin	662,395,359	808,100,878	22.0%	3.0%
Charity Care	520,433,771	586,504,871	12.7%	2.2%
Bad Debt	497,140,722	606,109,554	21.9%	2.3%
Operating Margin	4.24	4.39	3.6%	
Total Margin	5.61	6.29	12.2%	

Featured Topic

Perspective and the Presentation of Data

This publication typically contains over twenty charts and tables. These are intended to give the reader a way of relating to the data that is more meaningful than a simple series of numbers. Charts or graphs can show us trends that we might not otherwise notice. Charts are, however, a tool that can be easily manipulated to guide the reader to a conclusion that may not be entirely accurate. In a time of economic change and a presidential campaign, this can be a great temptation for the presenter of data. A reader of any data, even data such as contained in this publication, which the department intends to be as objective as possible, must carefully evaluate what is being shown in a chart to determine whether significant information or trends are being obscured or exaggerated.

Below this paragraph are two charts each depicting the same data – average length of stay for acute care patients in Washington hospitals for the past three years. No data has been manipulated, no elements added or subtracted, but you, the reader, may draw entirely different conclusions from the two tables.



Examine the first chart – note the variation in the bars that depict average length of stay. Note the corresponding variation in the line that shows the rate of change per year in length of stay. If the presenter wants you to conclude that there is considerable variation in these numbers, this might be a good way to depict them.

Now examine the second chart – first look at the data table at the bottom and note that it is identical to the data table in the first chart. Yet the impression the reader will be guided toward is that average length of stay is very stable. By simply changing the scale of the chart I have presented you with a graph that leads you to conclude the numbers don't really vary by much at all. Both charts are entirely accurate and honest – it is up to the reader to determine whether the changes are significant – and whether any analysis provided with the chart is objective or is intended to guide you to a desired conclusion.

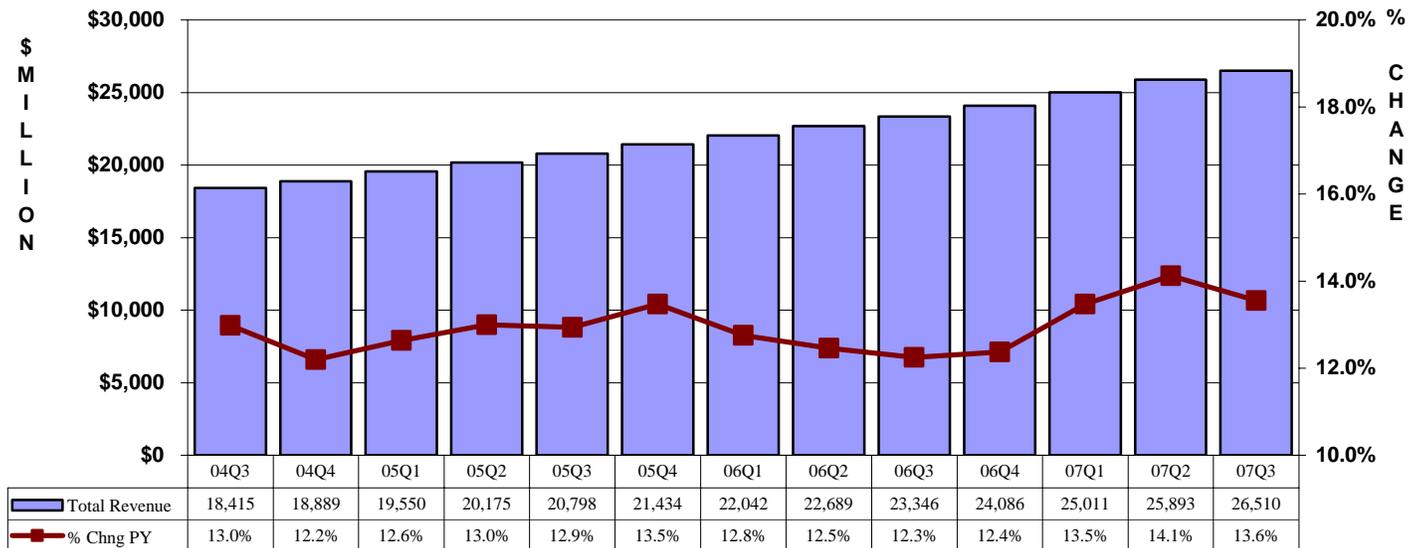
While we attempt to provide you with data and graphs that provide an objective picture of the financial performance of Washington hospitals each quarter, as reader, you, must look carefully at each chart we provide – and determine for yourself the significance of the data.

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 \$3.2 billion from \$23.3 billion to \$26.5 billion for the period ending September 30, 2007. The annual increase rate of 13.6% is slightly lower than recent rates. The annual dollar increase had been between \$2.05 and \$2.55 billion each four quarter year for sixteen periods, but has now advanced to over \$3.09 billion in each of the last two periods. 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.

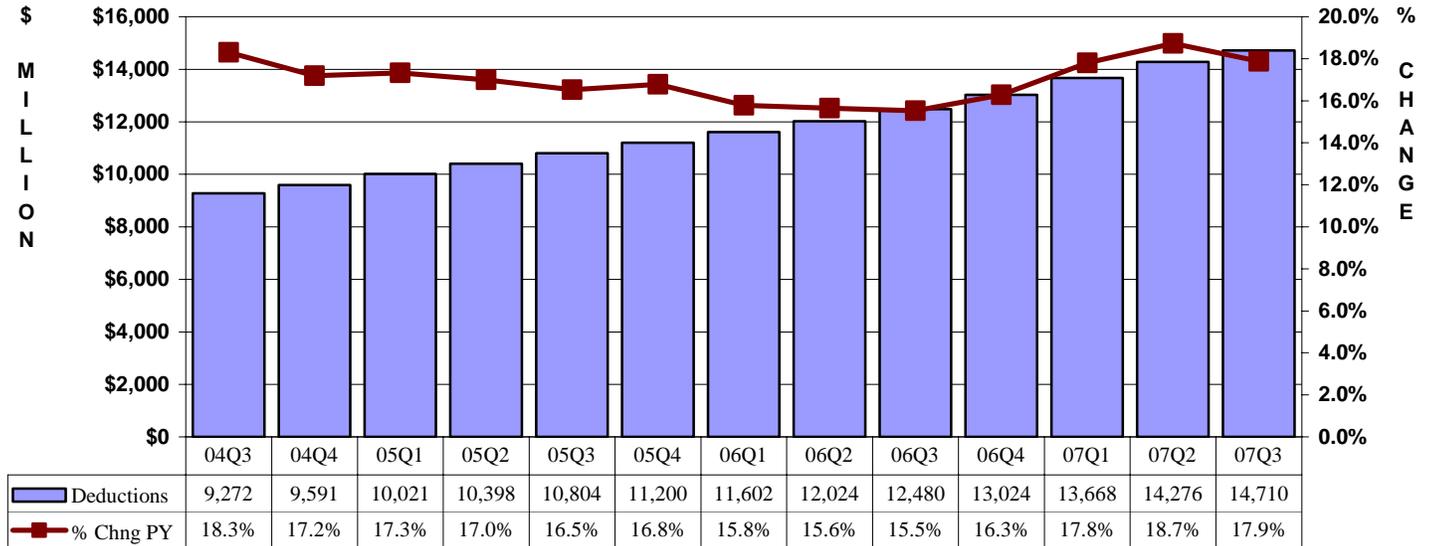
Total Patient Service Revenue



Total Deductions from Revenue

For the twelve months ended September 30, 2007 total deductions from revenue reached \$14.7 billion. This was an increase of \$2.2 billion, or 17.9% over the previous period ending September 30, 2006. Total deductions from revenue have been more than 50% of total patient service revenue since the four quarters ending September 2004. Total deductions have grown between 15.5% and 18.7% the past eight periods and the increases have nearly recovered to pre-December 2003 rates. 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

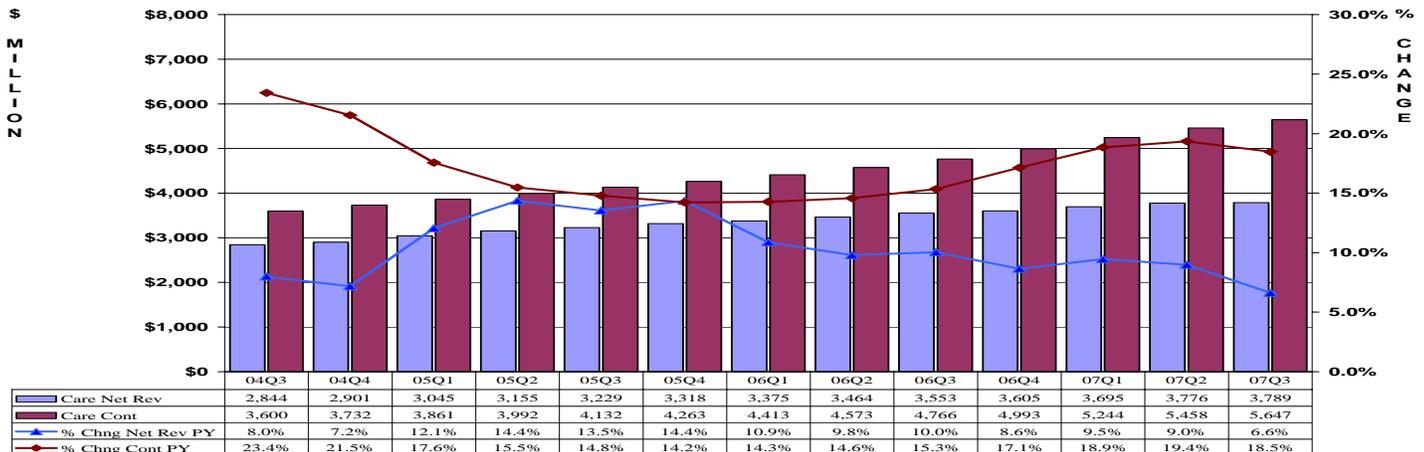


Contractual Adjustments

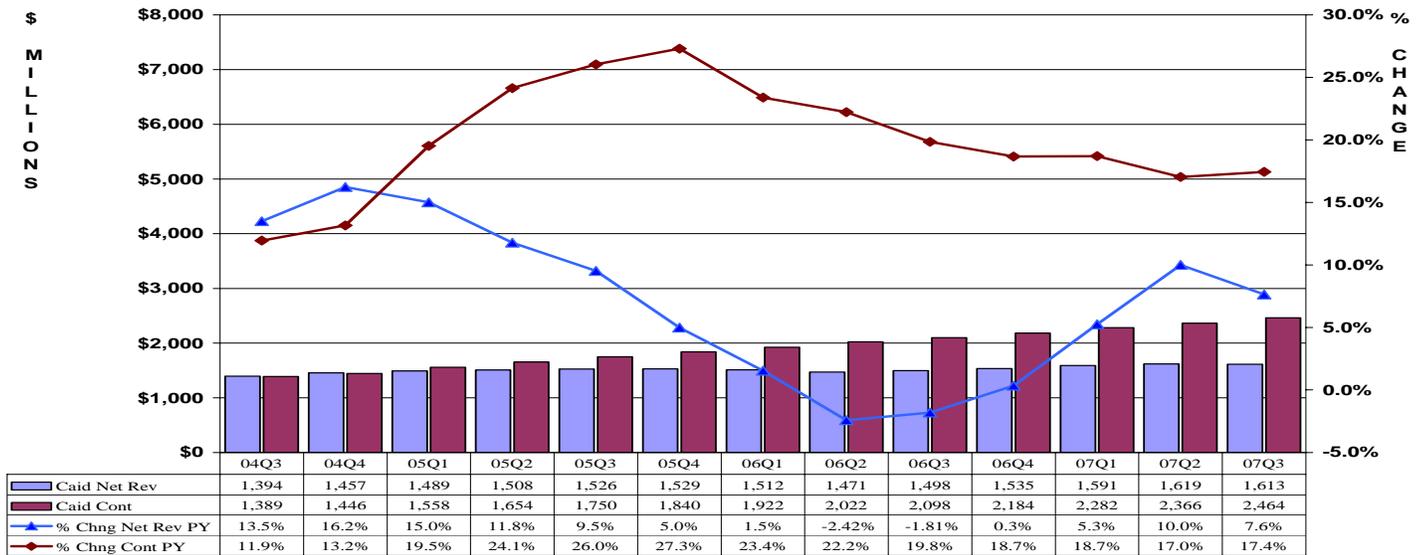
Contractuals, the most significant part of deductions from revenue, vary by payer. Below are three graphs, one for each payer, Medicare, Medicaid and Other. The three graphs are set up so you can see the relative size of the contractual adjustments and the net revenue by payer. The chart shows net revenue and contractuals and the percentage change for each over the prior year period. Other payer has the largest portion of net revenue, \$6.985 billion and deductions of \$6.013 billion. Medicare's net revenue of \$3.789 billion is much less than Other however the contractuals are similar to Other at \$5.647 billion. Medicaid net revenue was \$1.613 billion and deductions were \$2.464 billion. Based on the hospital's rate sheet, or billed revenue, hospitals bill Medicare an average of \$2.49 for each dollar they receive, Other payers an average of \$1.86 and Medicaid an average of \$2.53.

Medicare

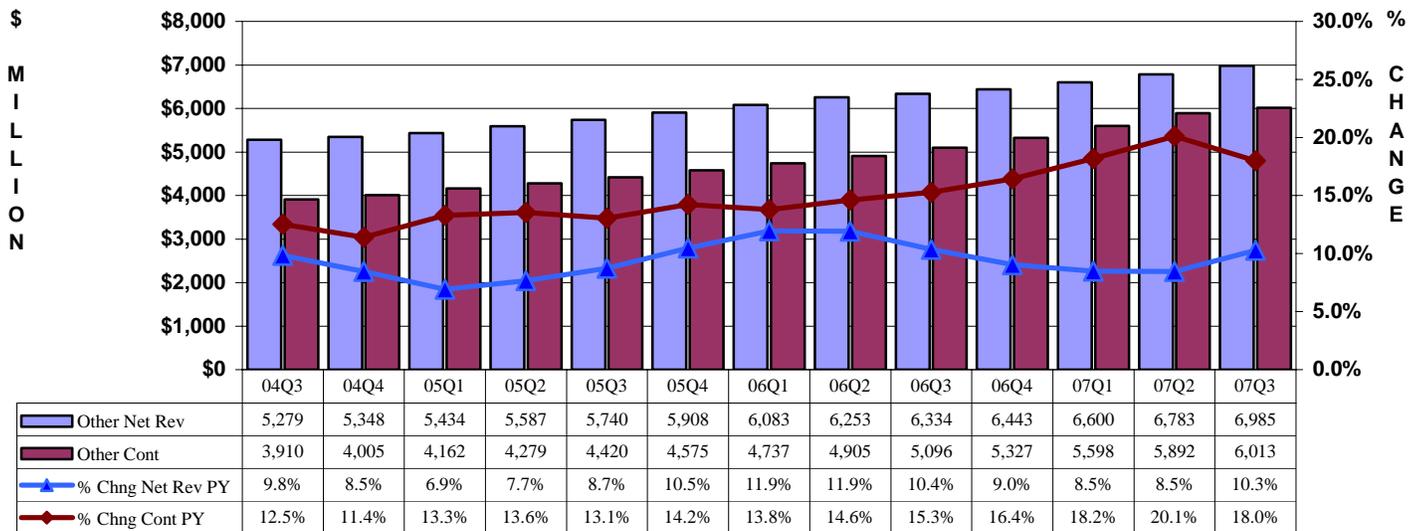
Contractuals



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 12.7% and bad debt has increased by 21.9%, for a total increase in uncompensated care of 17.2%.

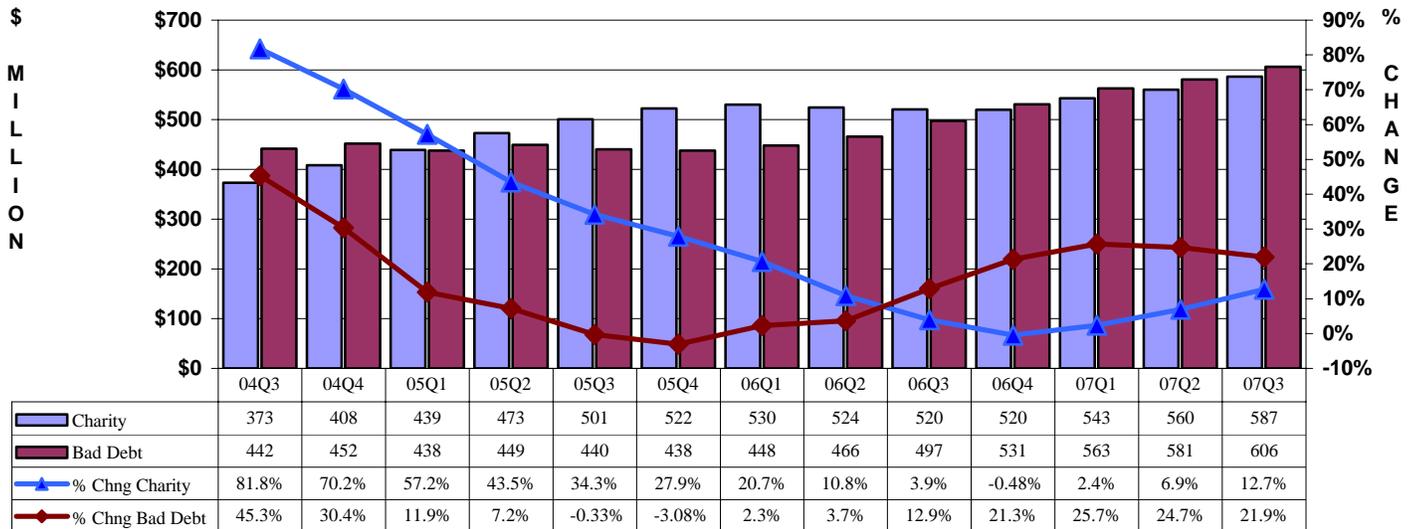
Charity

While charity care is only 2.21% of billed revenue, the dollar amount and percentage have been growing very rapidly during the past five years. Recently, during the September 30, 2006 to September 30, 2007 period, charity care has increased 12.7% or \$66 million. The rate of increase in charity care had been generally declining from the fourth quarter of 2003 to the fourth quarter of 2006, although the past three quarters have seen small increases in that rate.

Bad Debt

The bad debt dollar amount has grown from \$497 million for the four quarters ending September 30, 2006 to \$606 million for the period ending September 30, 2007 which is a 21.9% increase. Bad debt has been increasing since the four quarters ending December 31, 2005. Bad debt total dollars have again surpassed those of charity care, returning to the pattern that existed prior to the period ending March 31, 2005. Prior to that time bad debt always was a larger dollar amount.

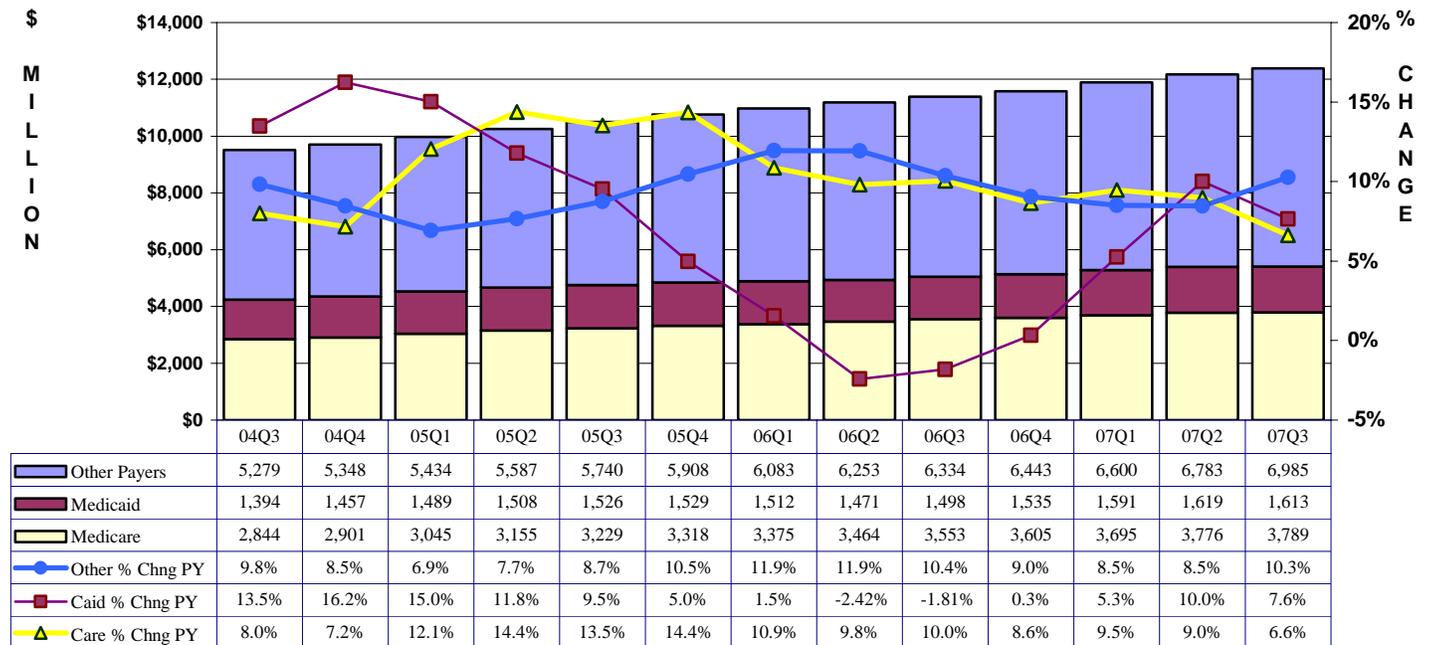
Charity and Bad Debt



Net Patient Services Revenue

During the twelve month period ended September 30, 2006 net patient service revenue grew by 8.6%, or \$935 million, from \$10.9 billion to \$11.8 billion. Other payer continues its strong percentage and dollar growth (10.3%, \$650 million). Medicare payer not only had a smaller percentage increase than Other but its increases have been getting smaller since the quarter ending December 31, 2005. The percentage change by payer from the previous year period shows that Medicare had a 6.6% increase and Other had a 10.3% increase over the twelve month period ending September 30, 2006. Medicaid revenue increased 13.4% while Medicaid deductions increased by 17.4%, increasing the net patient service revenue for Medicaid by 7.6% from the previous period.

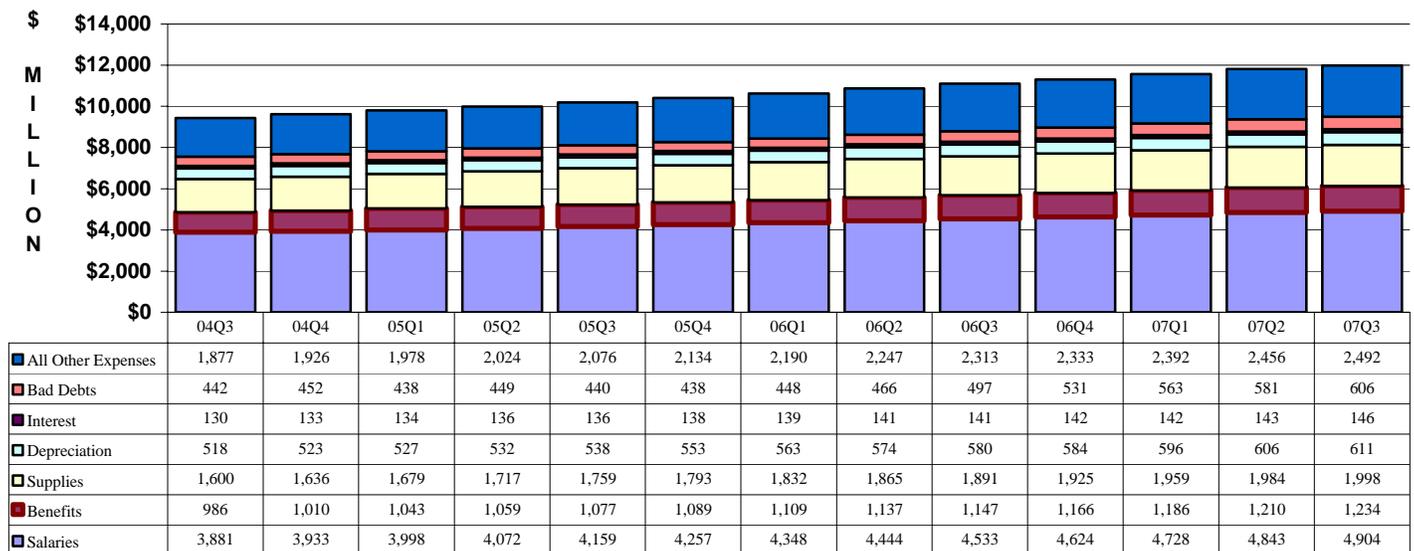
Net Patient Service Revenue by Payer



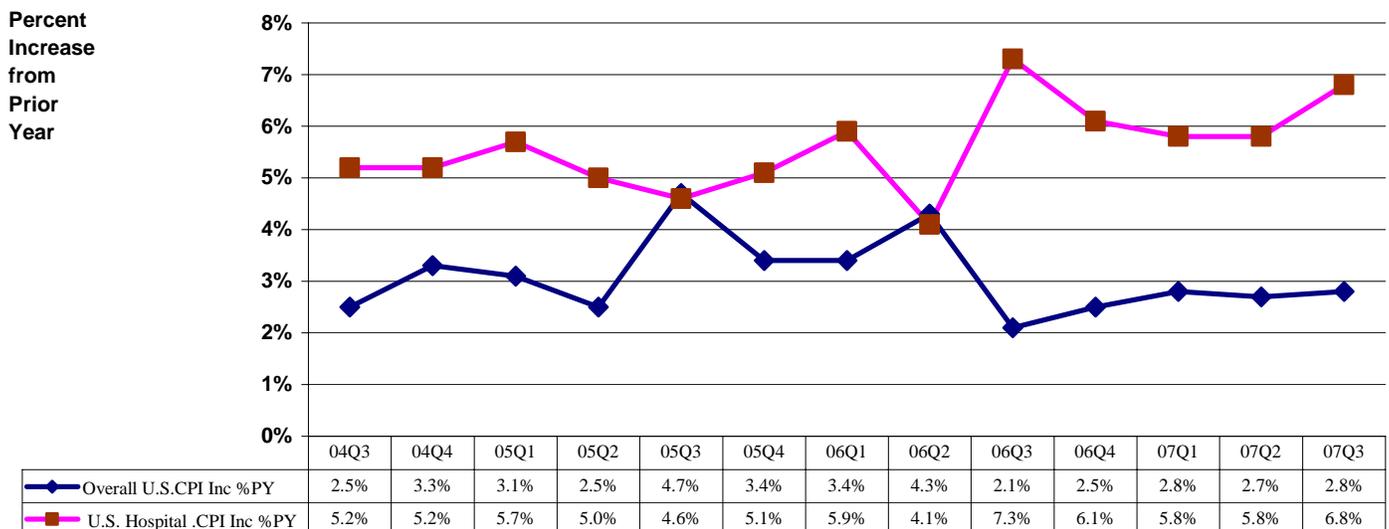
Operating Expenses

Operating expenses are the costs of providing health care services to hospital patients. Growing by 8.0%, or \$889 million, operating expenses reached \$11.99 billion in the twelve month period ended September 30, 2007. Adjusted discharges only increased .53% during the same time period. Operating expenses per adjusted discharge increased by 7.4%. The 7.4% increase exceeded the 2.8% annual increase in the overall United States consumer price index as well as the 6.8% annual increase in the United States hospital services component of the index for the same time period of September 2006 to September 2007. The category with the largest dollar increase in operating expenses was salaries at 8.2% or \$371 million for a total of \$4,904 million. The category with the largest percentage increase in operating expenses was bad debt at 21.9%, or \$109 million for a total of \$606 million. Interest expense had the smallest dollar and percentage increases during the same period.

Operating Expense



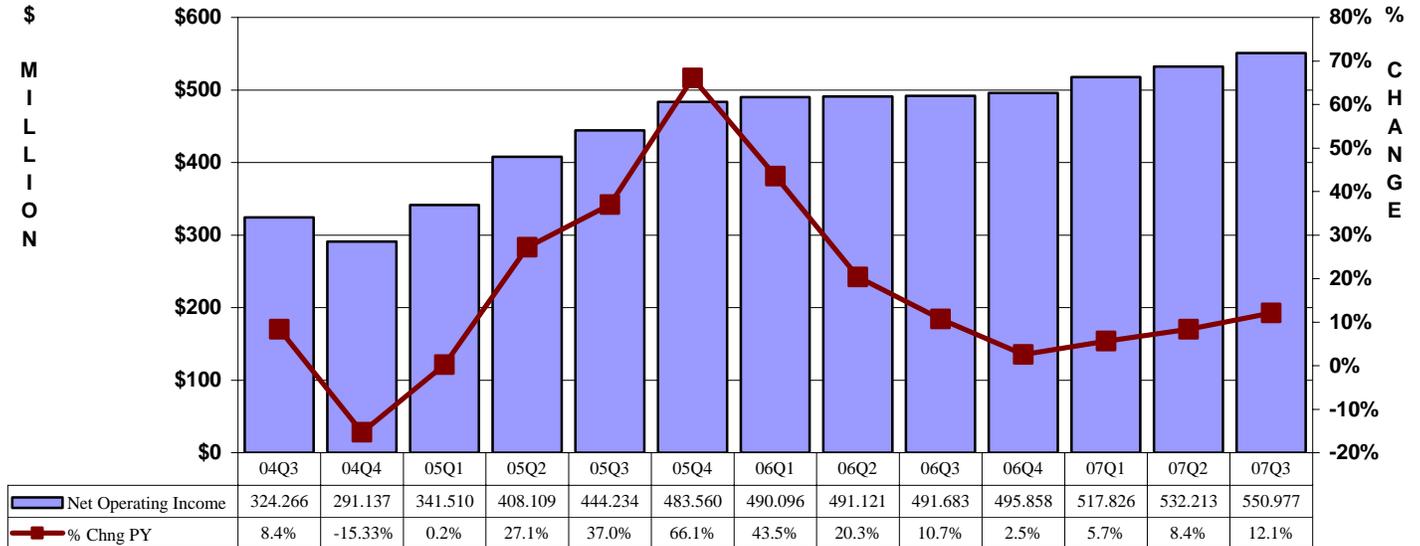
United States Consumer Price Index change from previous year (Overall vs. Hospital)



Net Operating Income

During the four quarters ended September 30, 2007 net operating income advanced to \$551 million, which was up 12.07% 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 8.18% and operating expense, which grew 8.01%, caused the 12.07% change in net operating income. Net operating income includes other operating income.

Net Operating Income

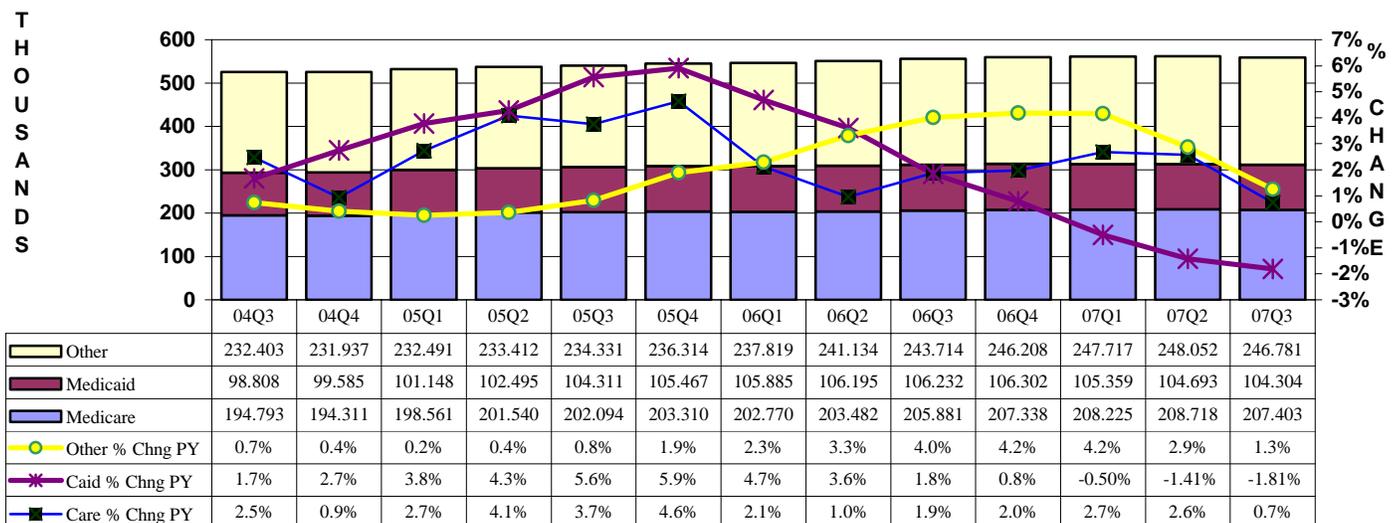


UTILIZATION INDICATORS

Discharges

Discharges and patient days are the primary indicators of inpatient activity. Discharges continued to grow slowly, reaching a total of 558,488 discharges during the four quarters ending September 30, 2007. This was a gain of only 2,661 discharges, or .5%, over the corresponding 2006 period. Medicaid discharges decreased 1.81%, while Medicare discharges increased 0.7% and Other discharges increased 1.3%.

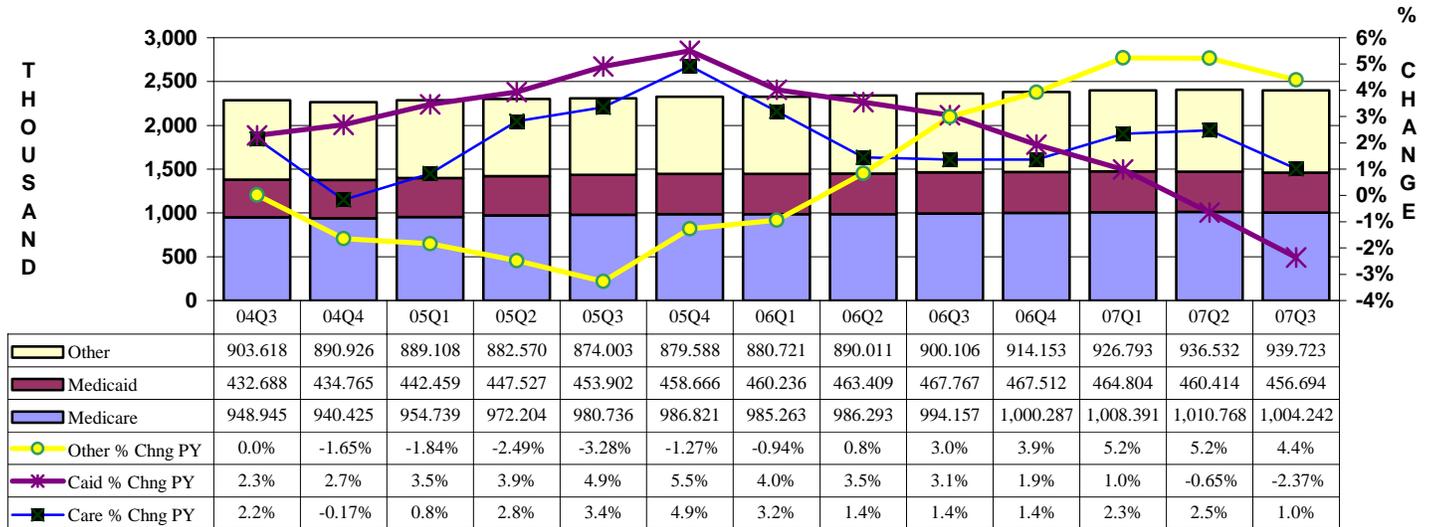
Discharges by Payer



Patient Days

Patient days also continued to grow, reaching a total of 2,400,659 during the four quarters ending September 30, 2007. This was a gain of 38,629 patient days, or 1.6%, over the corresponding year ago period. Medicare days grew 1.0%, Medicaid days declined 2.37% and Other increased by 4.4%.

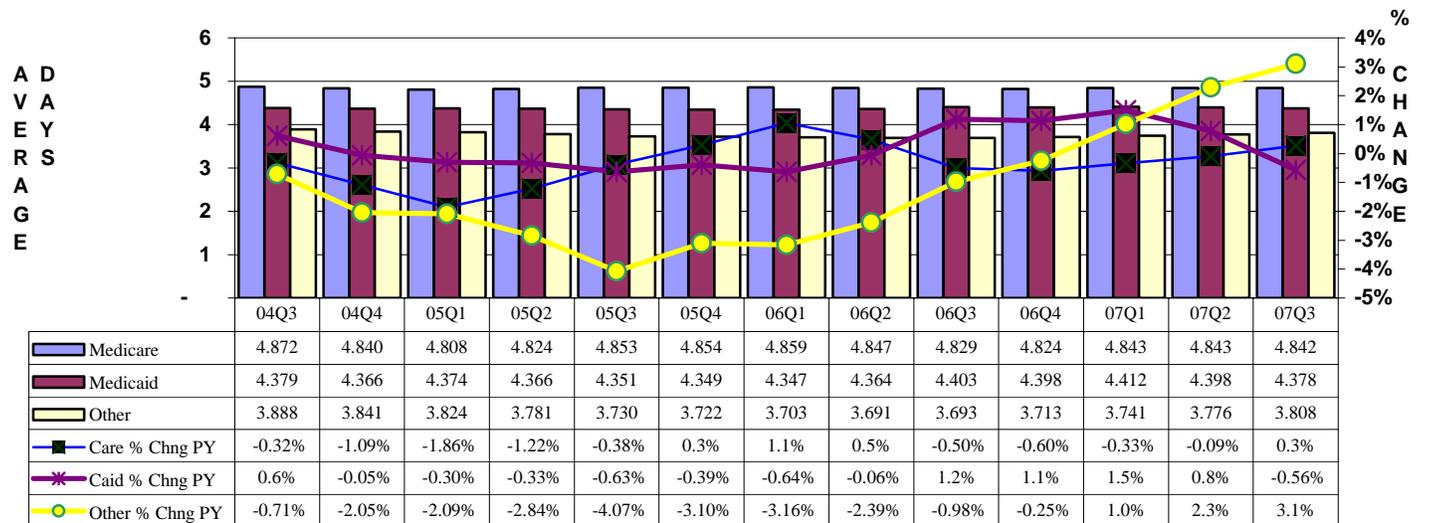
Patient Days by Payer



Length of Stay

Since the percentage increase in statewide discharges during the four quarters ending September 30, 2007 was less than the increase of patient days, statewide average length of stay increased slightly to 4.30 days, or 1.21%. Statewide average length of stay (ALOS) had remained in the range of 4.37 days to 4.24 days from calendar year 1995 through 2006 second quarter. During the four quarters ended September 30, 2007 the average length of stay has increased by .05 days from the previous period ending September 30, 2006. In the latest period, Medicare average length of stay was 4.84, Medicaid was 4.38 and Other was 3.81. Medicare ALOS was 9.6% higher than Medicaid and 21.4% higher than Other payer.

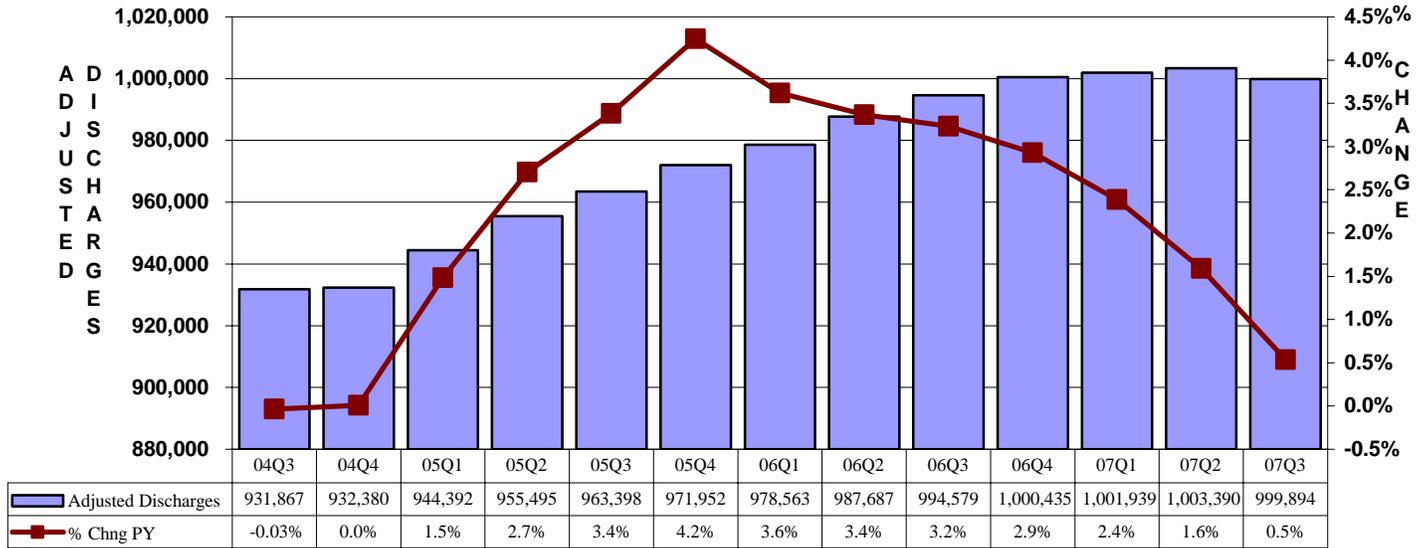
Length of Stay by Payer



Adjusted Discharges

Adjusted discharges reached a total of 999,894 in the four quarter period ended September 30, 2007. This was an increase of only 5,315 adjusted discharges, or 0.53%, from the four quarter period ended September 30, 2006. The percentage increase was the smallest one year increase in adjusted discharges since the four quarters ended December 31, 2004. 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. 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



Percent Change - Rate per Adjusted Discharge



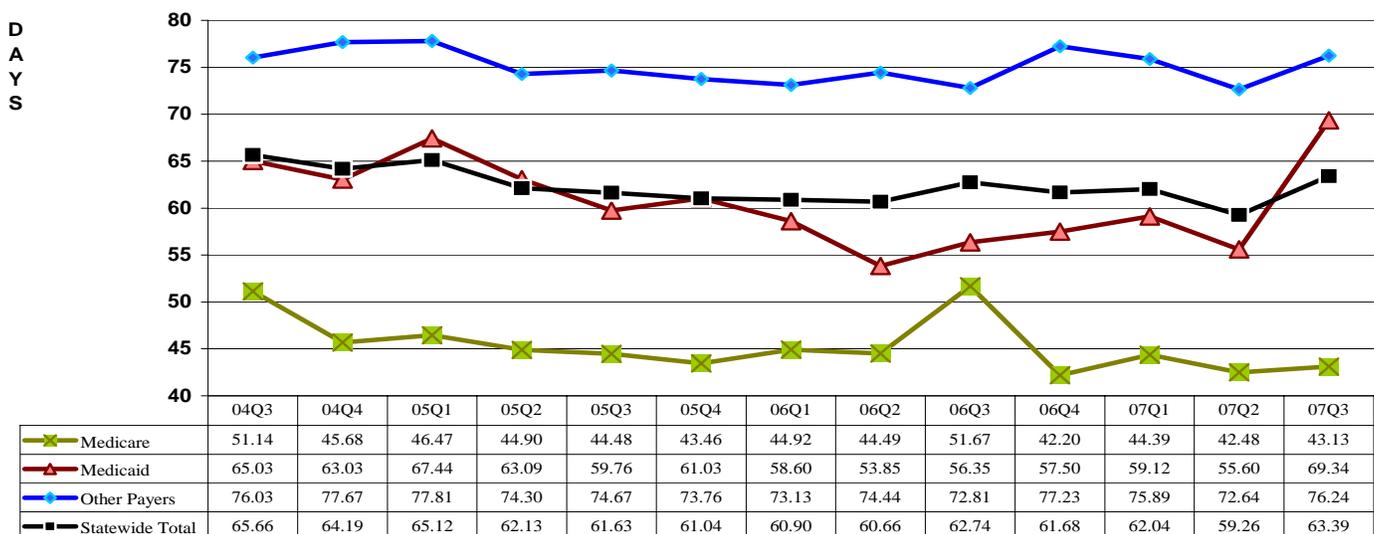
FINANCIAL RATIOS

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. On a statewide basis, accounts receivable averaged 63.4 days for the four quarter period ending September 30, 2007. This was an increase of 0.7 days, or 1.0%, from the corresponding year earlier period. Medicare accounts receivable decreased by 8.5 days, or 16.5%, to 43.1 days. Accounts receivable for Medicaid increased by 13.0 days, or 23.1%, to 69.3 days. An increase of 3.4 days, or 4.7%, to an average of 76.2 days was also noted for the Other payer groups.

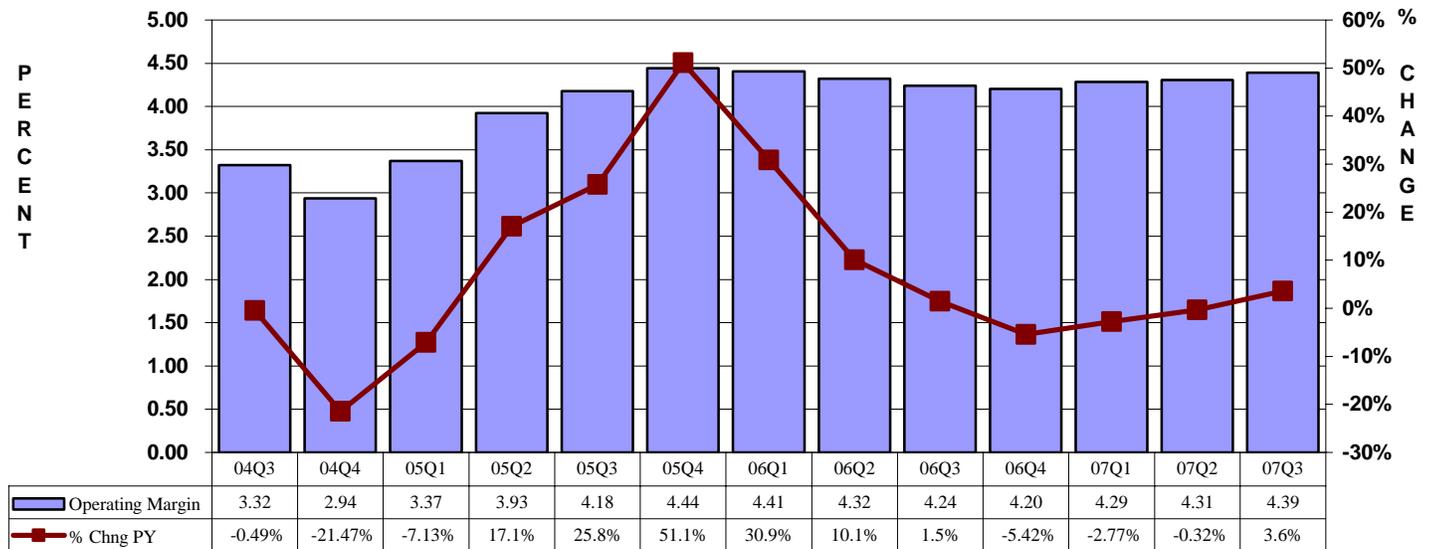
Days in Accounts Receivable by Payer



Operating Margin

During the twelve month period ended September 30, 2007 operating margin reached 4.39%, which was 3.6% above the year earlier level. The current period is slightly below the recent high level of 4.44% 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.

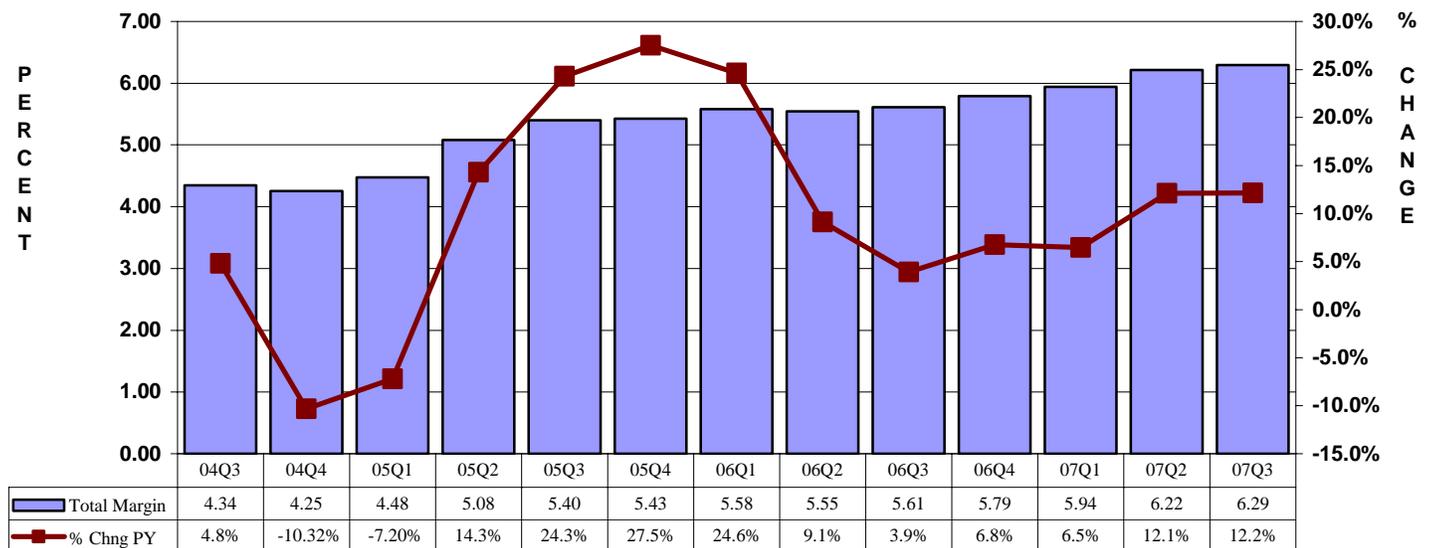
Operating Margin



Total Margin

During the twelve month period ending September 30, 2007 operating margin reached 6.29%, which was 12.2% above the year earlier level. The recent low 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

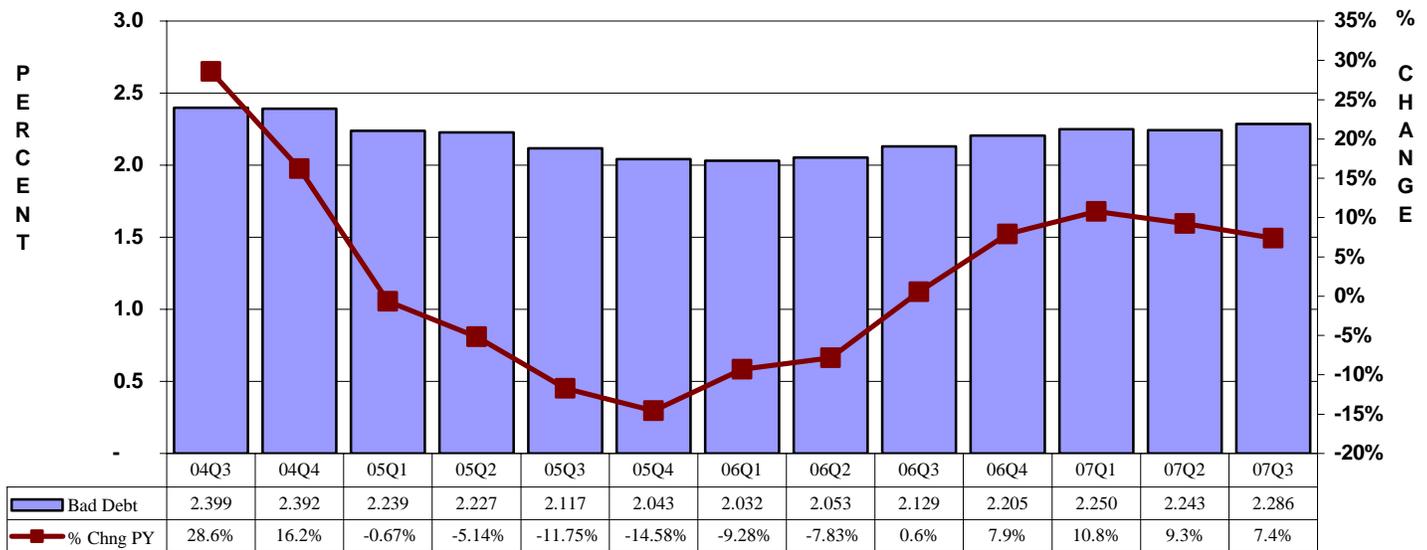
Uncompensated Care Proportion

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 reached 4.50%, which was an increase of 3.21% over the previous year.

Bad Debt

In the four quarter period ended September 30, 2007, the bad debt proportion reached 2.29%, which was an increase of 7.37% from the previous year.

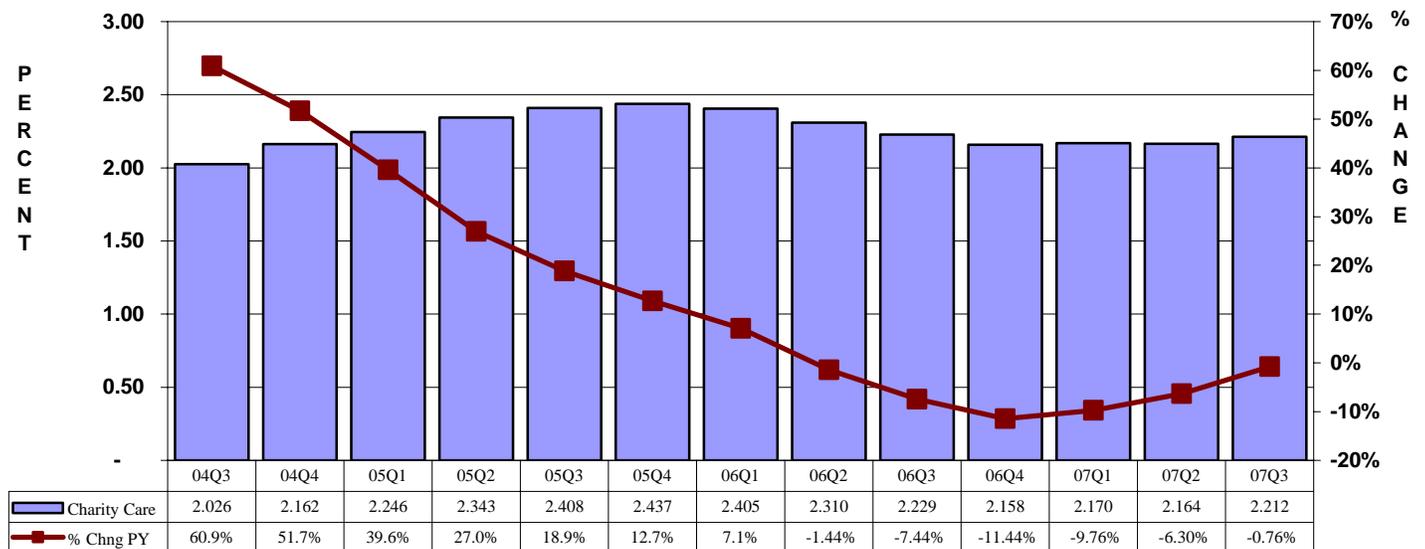
Bad Debt as a Percent of Total Revenue



Charity Care

The charity care proportion reached 2.21%, which was a decrease of 0.76% from the previous year. This was the sixth consecutive quarter showing a decline in this proportion.

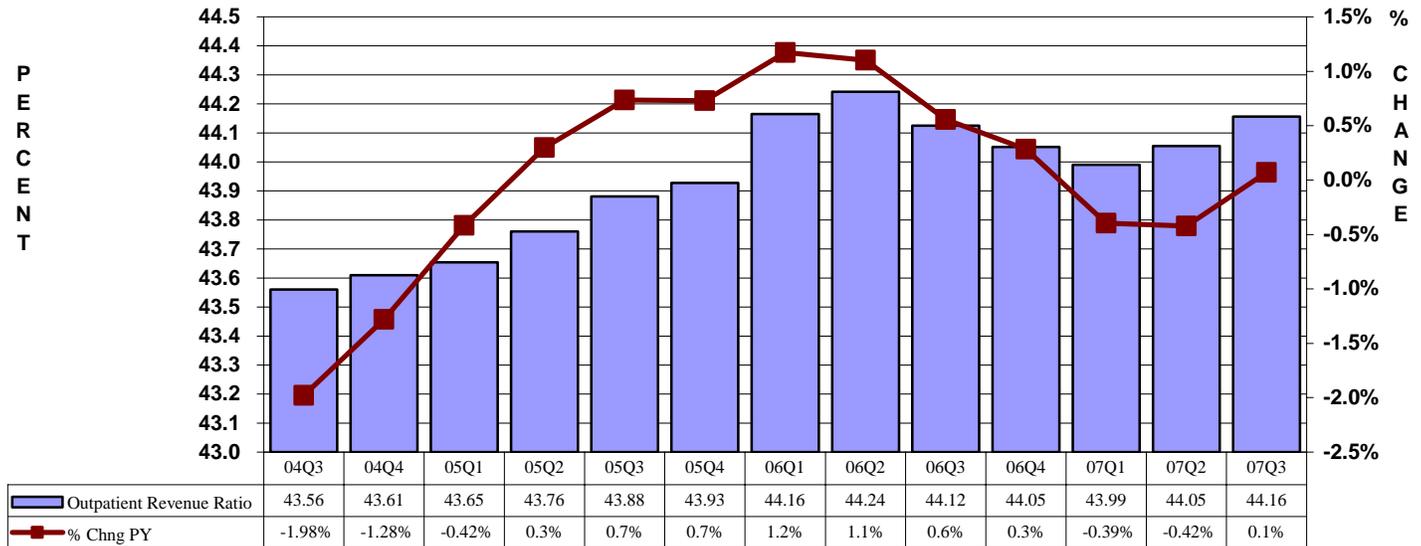
Charity Care as a Percent of Total Revenue



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, 2006 and September 30, 2007 the outpatient revenue percentage increased from 44.12% to 44.16%, or 0.1%. As hospitals moved procedures from inpatient to outpatient setting over the years, the ratio has gone up dramatically. In 1987 the ratio was 24.2%. Recently the ratio has been between 43 and 45.

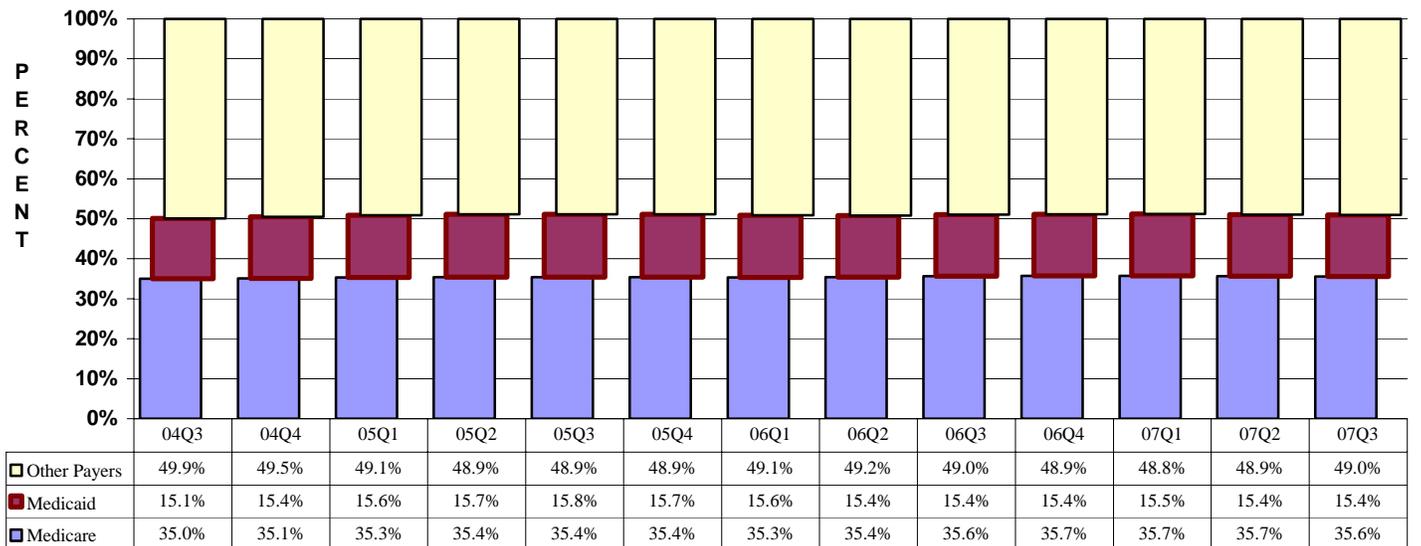
Outpatient Revenue as a percent of Total Revenue



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, 2007 the Medicare percentage was 35.59%, a decrease of .12% over the same period in 2006. The long term trend it seems is that Medicaid is relatively steady around 15.5% while Other seems to be slowing losing percentage points to Medicare. With 51.0% of total patient service revenue, 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 September 30 2006	12 Mo. Ended September 30 2007	Total Change	Percent Change
Total Patient Revenue				
Inpatient	13,047,048,071	14,807,256,066	1,760,207,995	13.49%
Outpatient	10,301,366,975	11,705,828,546	1,404,461,571	13.63%
Total	23,348,415,046	26,513,084,612	3,164,669,566	13.55%
Medicare	8,319,480,387	9,435,515,320	1,116,034,933	13.41%
Medicaid	3,596,172,979	4,076,474,685	480,301,706	13.36%
Other	11,430,312,389	12,998,317,605	1,568,005,216	13.72%
Deductions From Revenue				
Contractual Adjustments				
Medicare	4,766,093,170	5,646,638,546	880,545,376	18.48%
Medicaid	2,097,693,008	2,463,553,659	365,860,651	17.44%
Other	5,095,839,006	6,013,495,552	917,656,546	18.01%
Total	11,959,625,184	14,123,687,757	2,164,062,573	18.09%
Charity	520,433,771	586,504,871	66,071,100	12.70%
Total	12,480,058,955	14,710,192,628	2,230,133,673	17.87%
Uncompensated Care				
Bad Debt	497,140,722	606,109,554	108,968,832	21.92%
Charity	520,433,771	586,504,871	66,071,100	12.70%
Total	1,017,574,493	1,192,614,425	175,039,932	17.20%
Net Patient Revenue				
Medicare	3,553,387,217	3,788,876,774	235,489,557	6.63%
Medicaid	1,498,479,971	1,612,921,026	114,441,055	7.64%
Other	6,334,473,383	6,984,822,053	650,348,670	10.27%
Total	10,868,356,091	11,802,891,984	934,535,893	8.60%
Other Operating Revenue	727,522,386	741,858,963	14,336,577	1.97%
Total Operating Revenue	11,595,878,477	12,544,750,947	948,872,470	8.18%
Total Operating Expenses	11,101,745,697	11,990,997,388	889,251,691	8.01%
Net Operating Income	494,132,780	553,753,559	59,620,779	12.07%
Non-Operating Income	139,298,347	221,043,092	81,744,745	58.68%
Tax Revenue	28,964,232	33,304,227	4,339,995	14.98%
Net Total Income	662,395,359	808,100,878	145,705,519	22.00%
Gross Accounts Receivable				
Medicare	1,177,648,899	1,114,828,496	(62,820,403)	-5.33%
Medicaid	555,153,444	774,434,661	219,281,217	39.50%
Other	2,280,138,754	2,714,927,906	434,789,152	19.07%
Total	4,012,941,097	4,604,191,063	591,249,966	14.73%
Days in Accounts Receivable				
Medicare	51.7	43.1	(8.5)	-16.53%
Medicaid	56.3	69.3	13.0	23.06%
Other Payers	72.8	76.2	3.4	4.71%
Statewide Total	62.7	63.4	0.7	1.04%
Utilization				
Discharges	555,827	558,488	2,661	0.48%
Patient Days	2,362,030	2,400,659	38,629	1.64%
Length of Stay	4.25	4.30	0.05	1.15%
Adjusted Discharges	994,579	999,894	5,315	0.53%
Rates per Adjusted Discharge				
Total Revenue	23,475.68	26,515.89	3,040.21	12.95%
Deductions	12,548.08	14,711.75	2,163.67	17.24%
Net Revenue	11,659.08	12,546.08	886.99	7.61%
Operating Expense	11,162.26	11,992.27	830.01	7.44%
Net Margin	666.01	808.19	142.18	21.35%
Financial Ratios				
Operating Margin	4.24	4.39	0.15	3.58%
Total Margin	5.61	6.29	0.68	12.16%
Deductible Proportion	53.46	55.49	2.03	3.80%
Contractual Proportion - Total	51.23	53.28	2.05	4.00%
Contractual Proportion - Medicare	57.29	59.84	2.56	4.46%
Contractual Proportion - Medicaid	58.33	60.43	2.10	3.60%
Contractual Proportion - Other	44.58	46.26	1.68	3.77%
Bad Debt Proportion	2.13	2.29	0.16	7.37%
Charity Proportion	2.23	2.21	(0.02)	-0.76%
Uncompensated Care Proportion	4.36	4.50	0.14	3.21%
Total Revenue/Inpatient Revenue	1.79	1.79	0.00	0.06%
Outpatient Revenue Percent	44.12	44.16	0.03	0.07%
Medicare Revenue Percent	35.64	35.59	(0.04)	-0.12%
Medicaid Revenue Percent	15.40	15.38	(0.03)	-0.17%

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 quarter of 2006 and the first three quarters of 2007. 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 September 30, 2007

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