

Introduction

hospTRENDS reviews the current plus previous 12 quarters, which equals three years plus one quarter. The data upon which hospTRENDS is based is provided by the hospitals in Washington through quarterly submission of financial and utilization information. At time of publication of this edition, the following hospitals had not submitted data for one or more quarters of 2009: Dayton General Hospital, East Adams Rural Hospital, Prosser Memorial Hospital and Quincy Valley Hospital. 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 increased 2.6%. This is the fourth consecutive period with a greater than 2.0% growth in this number. Between the periods beginning third quarter 2002 and ending fourth quarter 2004 increases were between 0.38% and 1.68%. Patient days have grown 2.2% in this period, down from 3.4 in the prior period. The previous high in recent years was 4.0% for the period ending September 30, 2008. Average length of stay decreased to 4.31, down slightly from last period's 4.34 days.

Deductions from revenue grew at a 17.1% rate, continuing a cycle where the growth in deductions had been slightly higher each period in 2007 and 2008. The operating revenue grew significantly slower (8.9%) than operating expenses (10.0%) which translates into an operating margin decrease of 10.7% from the previous period. Operating expense grew by 10.0%, which is within the annual percentage change range of the past 10 years that includes a low of 7.5% and a high of 10.9%. Charity care grew at 17.6% compared to recent growth of up to 81.2%. Bad debt continued recent trends with an increase of 9.2%. Charity care's rate of change has been more volatile recently than bad debt, which has seen decreasing rates of change in the past nine periods.

Statewide Summary of Quarterly Reports

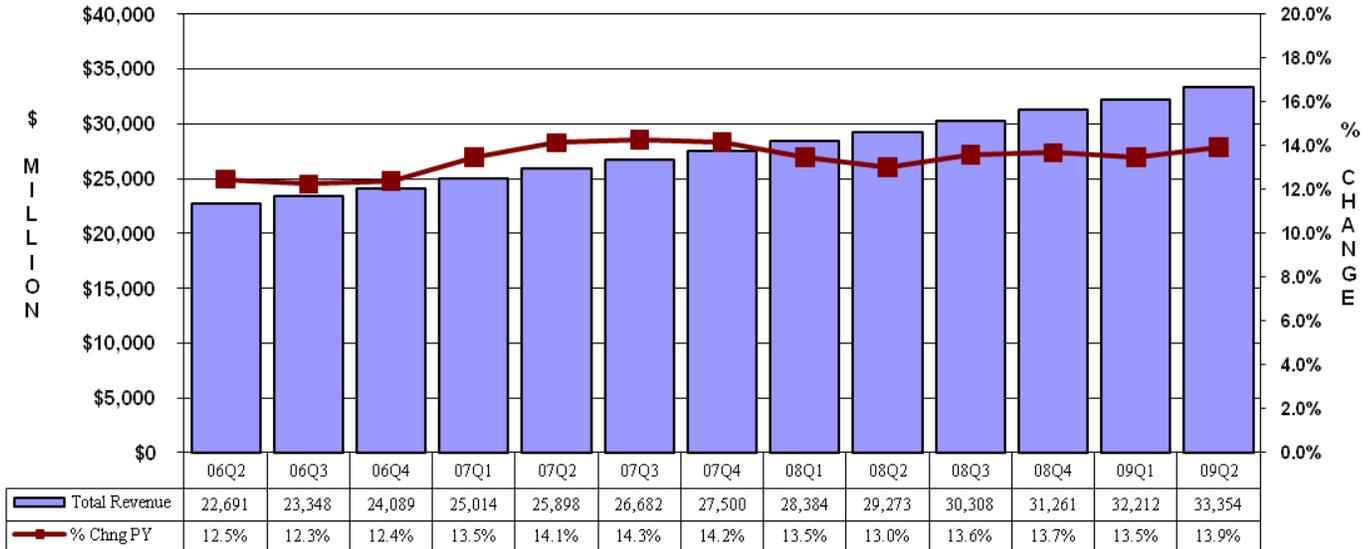
	4 Quarter Period Ending		Percent Difference	2009 Percent of Tot Rev
	6/30/2008	6/30/2009		
Discharges	572,331	586,980	2.6%	
Patient Days	2,476,080	2,529,324	2.2%	
Average Length of Stay	4.33	4.31	-0.4%	
+ Total Revenue	29,272,939,282	33,353,923,766	13.9%	
- Deductions from Revenue	16,346,125,731	19,134,259,235	17.1%	57.4%
= Net Revenue	12,926,813,551	14,219,664,531	10.0%	42.6%
+ Other Operating Revenue	875,874,590	808,000,476	-7.7%	2.4%
= Operating Revenue	13,802,688,141	15,027,665,007	8.9%	45.1%
- Operating Expenses	13,029,035,550	14,336,840,443	10.0%	43.0%
= Operating Margin	773,652,591	690,824,564	-10.7%	2.1%
+ Other Income/Tax Revenue	160,386,178	(119,611,671)	-174.6%	-0.4%
= Total Margin	934,038,769	571,212,893	-38.8%	1.7%
Charity Care	646,984,560	761,020,508	17.6%	2.3%
Bad Debt	656,308,113	716,540,861	9.2%	2.1%
Operating Margin	5.59	4.57	-18.1%	
Total Margin	6.67	3.81	-42.9%	

FINANCIAL INDICATORS

Total Patient Service Revenue

Total billed charges for patient services, which are identified as total patient service revenue or total revenue, increased by \$4.1 billion from \$29.3 billion to \$33.4 billion for the period ending June 30, 2009. The annual increase rate of 13.9% is similar to 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 billion in each of the last nine 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.

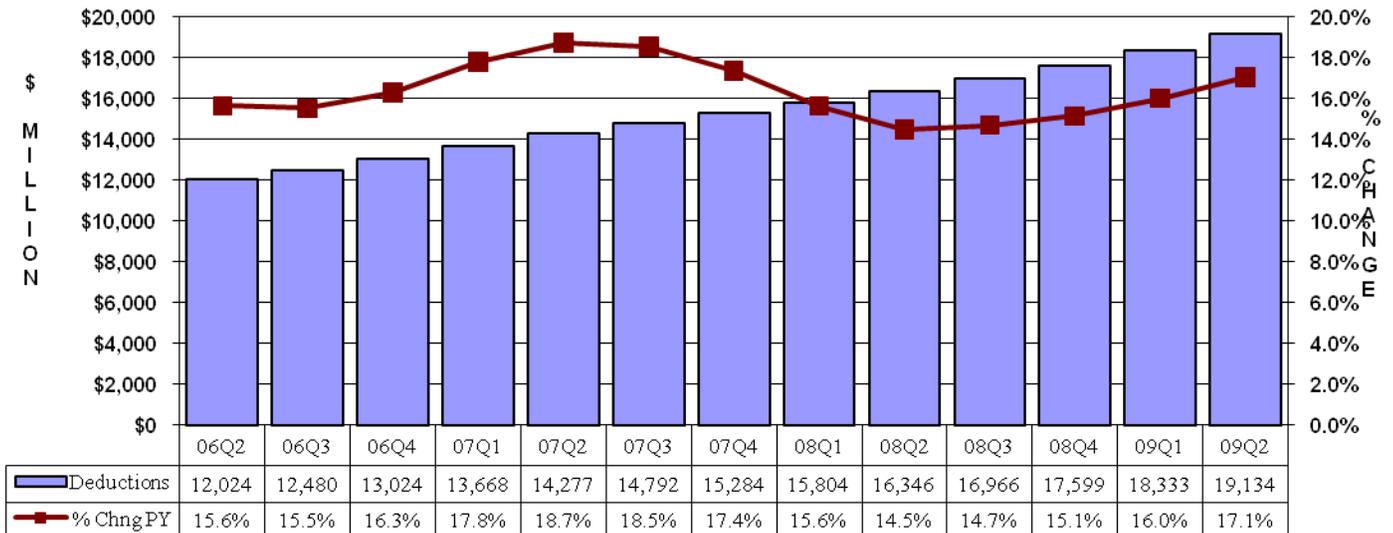
Total Patient Service Revenue



Total Deductions from Revenue

For the twelve months ended June 30, 2009 total deductions from revenue reached \$19.1 billion. This was an increase of \$2.8 billion, or 17.1% over the previous period ending June 30, 2008. Total deductions from revenue have been more than 50% of total patient service revenue since the four quarters ending September 2004. Total deductions include contractual adjustments and charity care. Deductions are the difference between what the hospital billed and what they were paid.

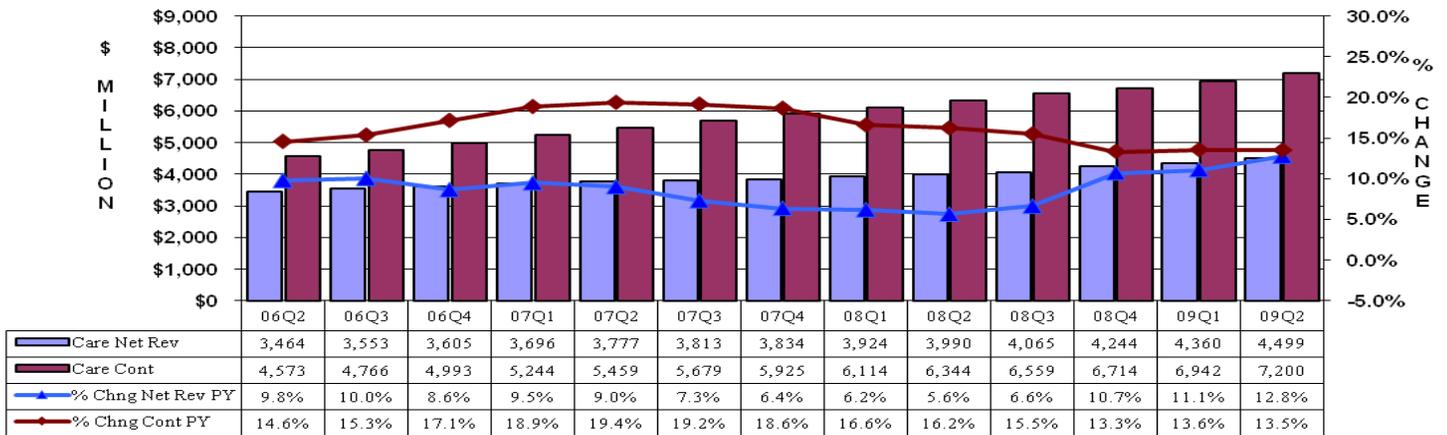
Total Deductions from Revenue



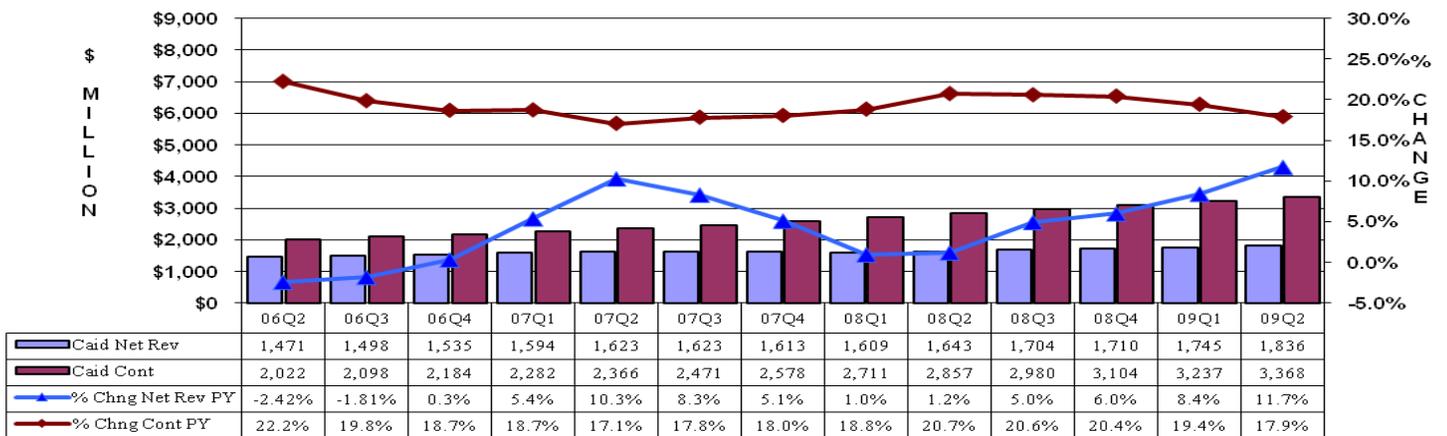
Contractual Adjustments

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, \$8.65 billion and deductions of \$7.81 billion. Medicare's net revenue of \$4.50 billion is much less than other however the contractuals are similar to other at \$7.20 billion. Medicaid net revenue was \$1.84 billion and deductions were \$3.37 billion. Based on the hospital's rate sheet, or billed revenue, hospitals bill Medicare an average of \$2.60 for each dollar they receive, other payers an average of \$1.90 and Medicaid an average of \$2.83.

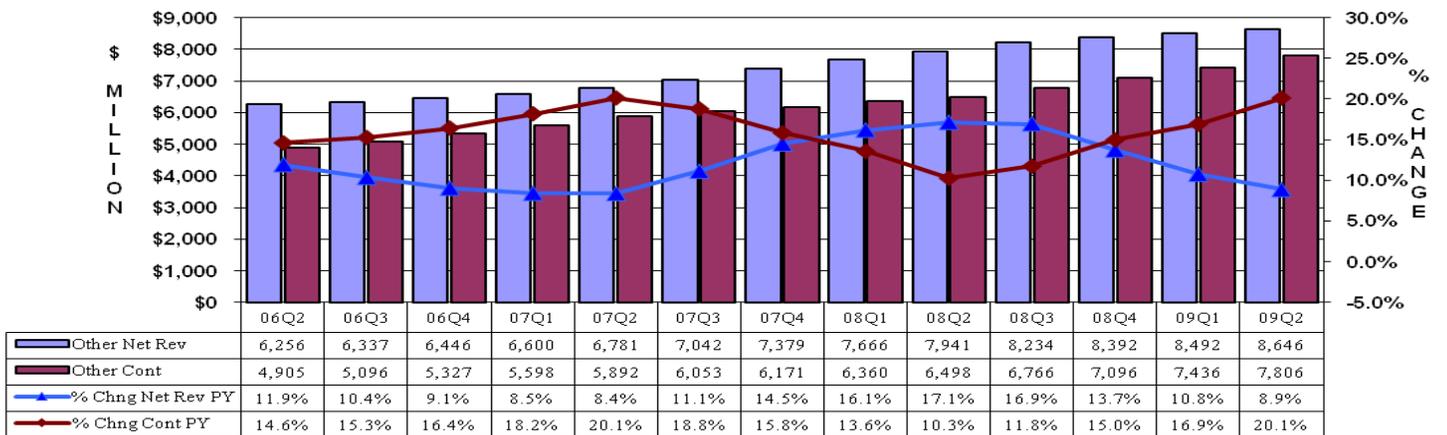
Medicare Contractuals



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 17.63% and bad debt has increased by 9.18%, for a total increase in uncompensated care of 13.37%.

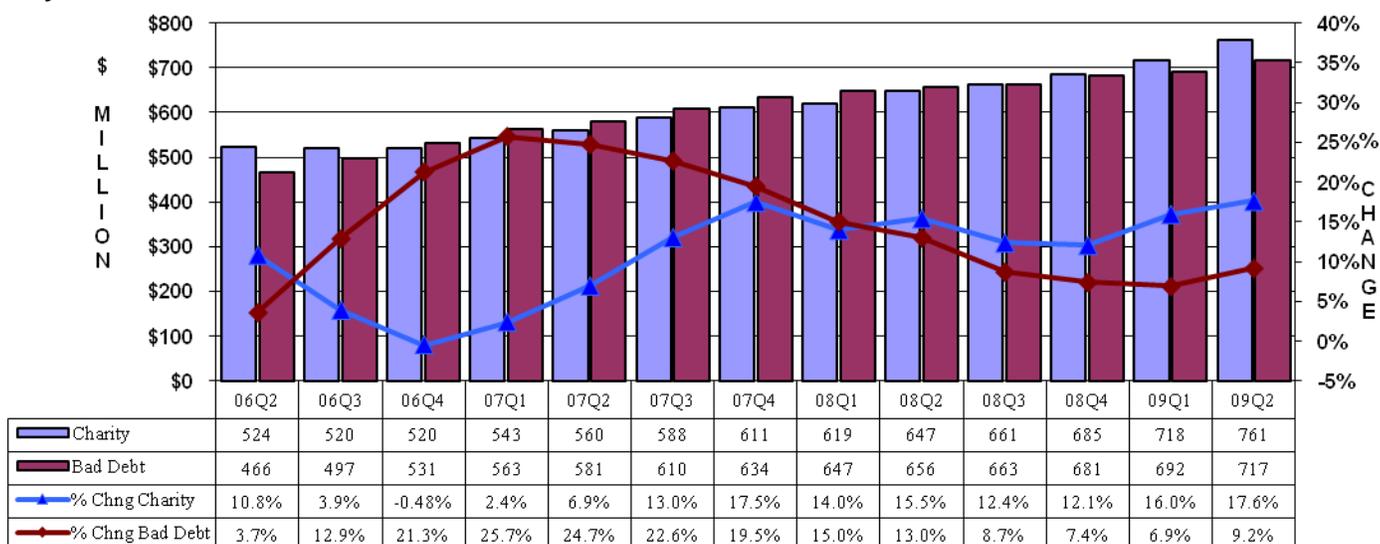
Charity

While charity care is only 2.28% of billed revenue, the dollar amount and percentage have been growing very rapidly during the past five years. Recently, during the June 30, 2008 to June 30, 2009 period, charity care has increased 17.63% or \$114 million.

Bad Debt

The bad debt dollar amount has grown from \$656 million for the four quarters ending June 30, 2008 to \$717 million for the period ending June 30, 2009, which is a 9.18% increase. Bad debt has been slowing its rate of increase since the four quarters ending December 31, 2005.

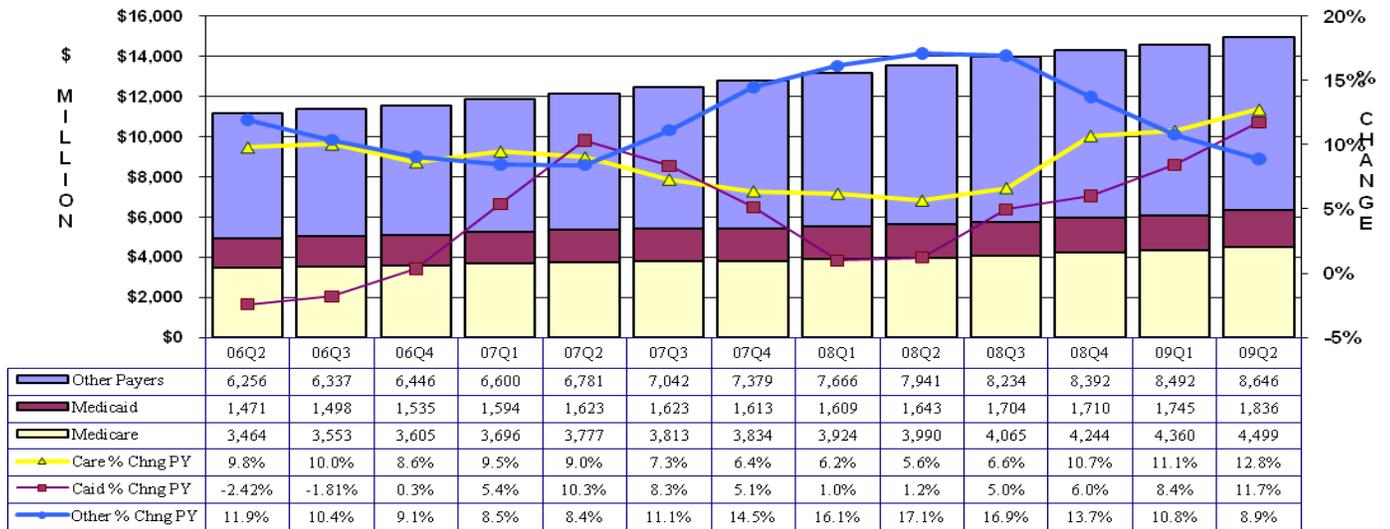
Charity and Bad Debt



Net Patient Services Revenue

During the twelve-month period ended June 30, 2009, net patient service revenue grew by 10.0%, or \$1.29 billion, from \$12.9 billion to \$14.2 billion. Other payer continues its strong percentage and dollar growth (8.88%, \$704 million). The percentage change by payer from the previous year period shows that Medicare had a 12.76% increase and other had a 8.88% increase over the twelve month period ending June 30, 2008. Medicaid revenue increased 15.6% while Medicaid deductions increased by 17.9%, increasing the net patient service revenue for Medicaid by 11.7% from the previous period.

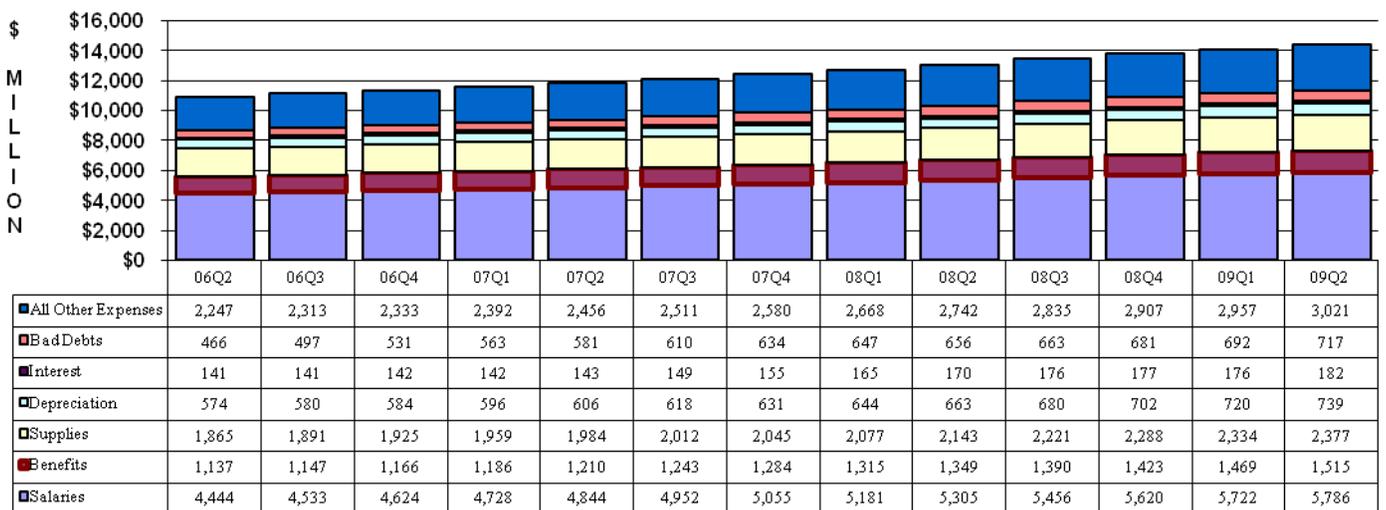
Net Patient Service Revenue by Payer



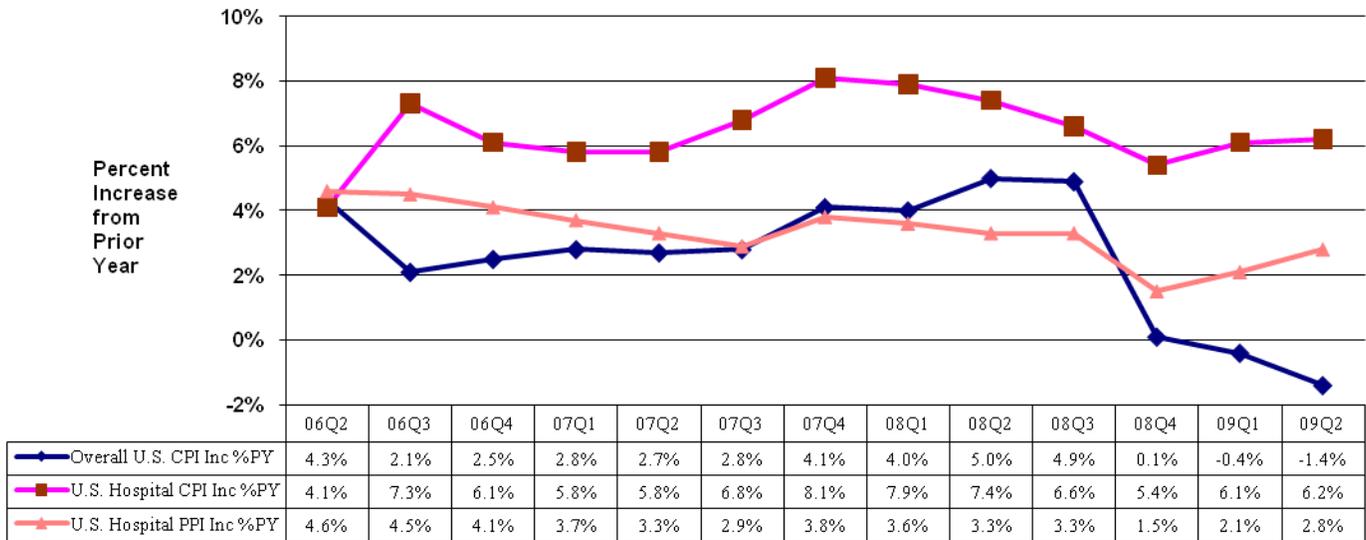
Operating Expenses

Operating expenses are the costs of providing health care services to hospital patients. Growing by 10.0%, or \$1.31 billion, operating expenses reached \$14.3 billion in the twelve-month period ended June 30, 2009. Adjusted discharges only increased 3.56% during the same period. Operating expenses per adjusted discharge increased by 6.25%. The 6.25% increase exceeded the 1.4% annual decrease in the overall United States consumer price index as well as the 6.5% annual increase in the United States hospital services component of the index for the same period of June 2008 to June 2009. The category with the largest dollar increase in operating expenses was salaries at 9.1% or \$481 million for a total of \$5,786 million. The category with the largest percentage increase in operating expenses was benefits at 12.3%, or \$166 million for a total of \$1,515 million. Interest expense had the smallest dollar increases during the same period, while bad debt had the smallest percentage increase.

Operating Expense



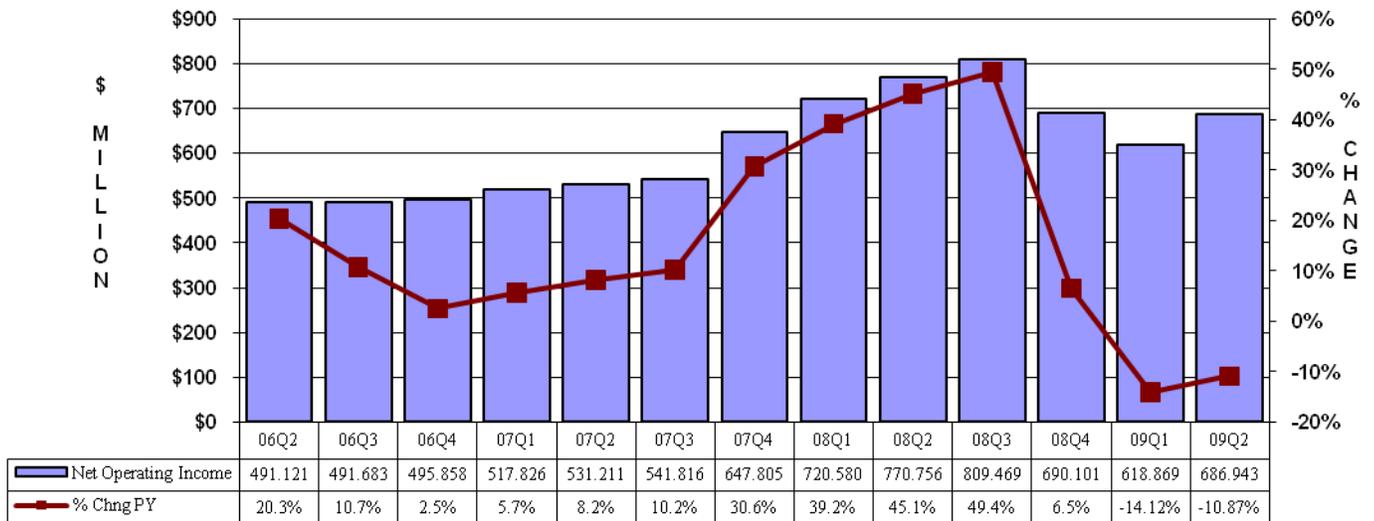
United States Consumer Price Index and Produce Price Index change from previous year (Overall vs. Hospital)



Net Operating Income

During the four quarters ended June 30, 2009 net operating income equaled \$691 million, which was down 10.7% from the year ago level. This is the second lowest rate of growth since the year ending December 31, 2004. 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 8.87% and operating expense, which grew 10.04%, caused the 10.7% decrease in net operating income. Net operating income includes other operating income.

Net Operating Income

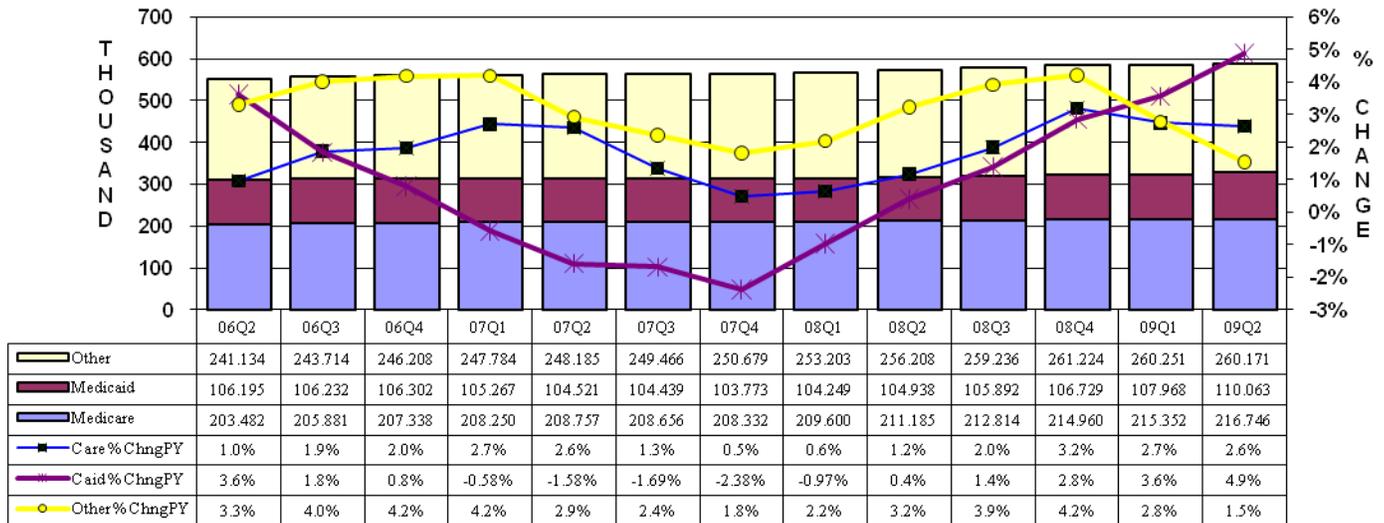


UTILIZATION INDICATORS

Discharges

Discharges and patient days are the primary indicators of inpatient activity. Discharges continued to grow slowly, reaching 586,980 discharges during the four quarters ending June 30, 2009. This was a gain of 14,969 discharges, or 2.6%, over the corresponding 2008 period. Medicaid discharges increased 4.9%, while Medicare discharges increased 2.6% and other discharges increased only 1.5%.

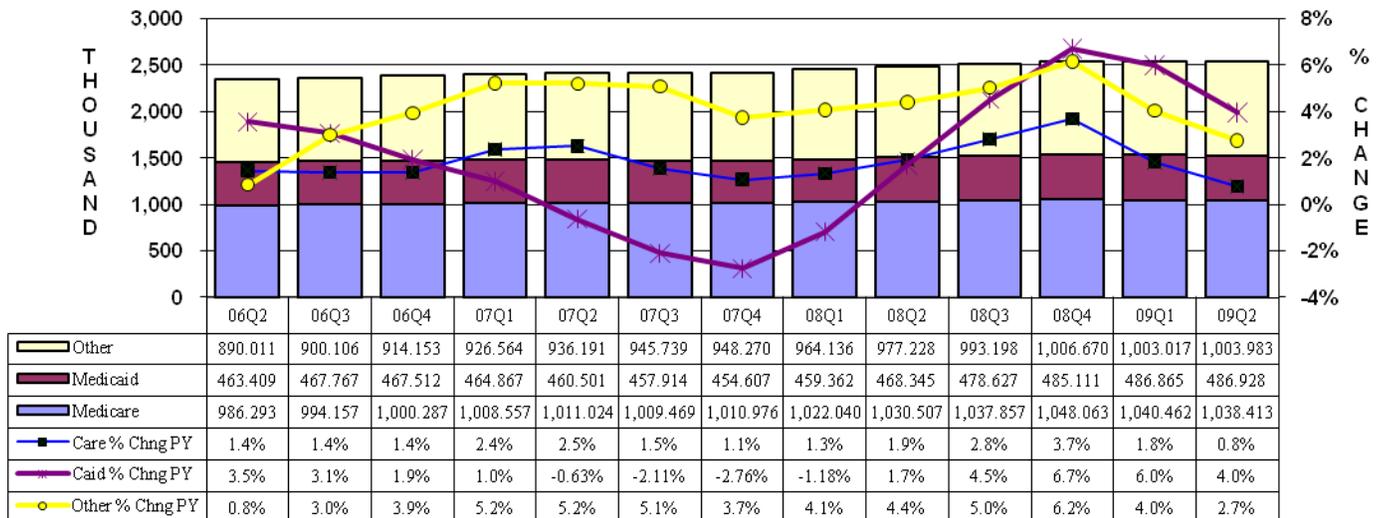
Discharges by Payer



Patient Days

Patient days also continued to grow modestly, reaching 2,529,324 during the four quarters ending March June 30, 2009. This was a gain of 53,244 patient days, or 2.2%, over the corresponding year ago period. Medicare days grew 0.8%, Medicaid days increased 4.0% and other increased by 2.7%.

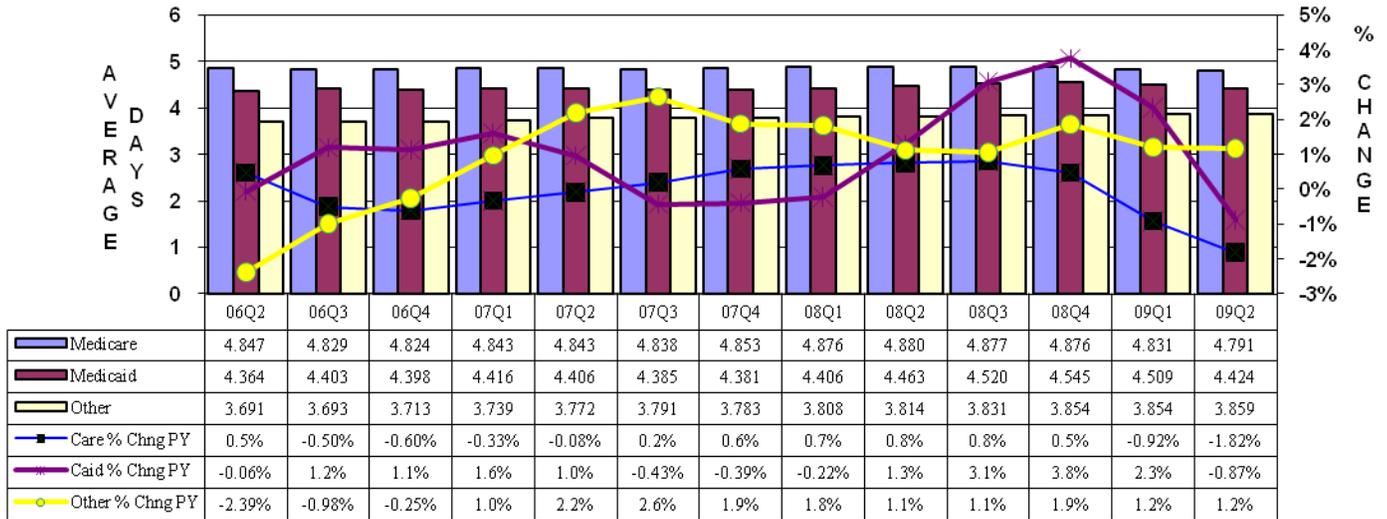
Patient Days by Payer



Length of Stay

Since the percentage increase in statewide discharges during the four quarters ending June 2009 was greater than the increase of patient days, statewide average length of stay decreased slightly to 4.31 days, or 0.40%. During the four quarters ended June, 2009, the average length of stay has decreased by 0.02 days from the previous period ending June 30, 2008. In the latest period, Medicare average length of stay was 4.79, Medicaid was 4.42, and other was 3.86. Medicare ALOS was 8.3% higher than Medicaid and 24.2% higher than Other Payer.

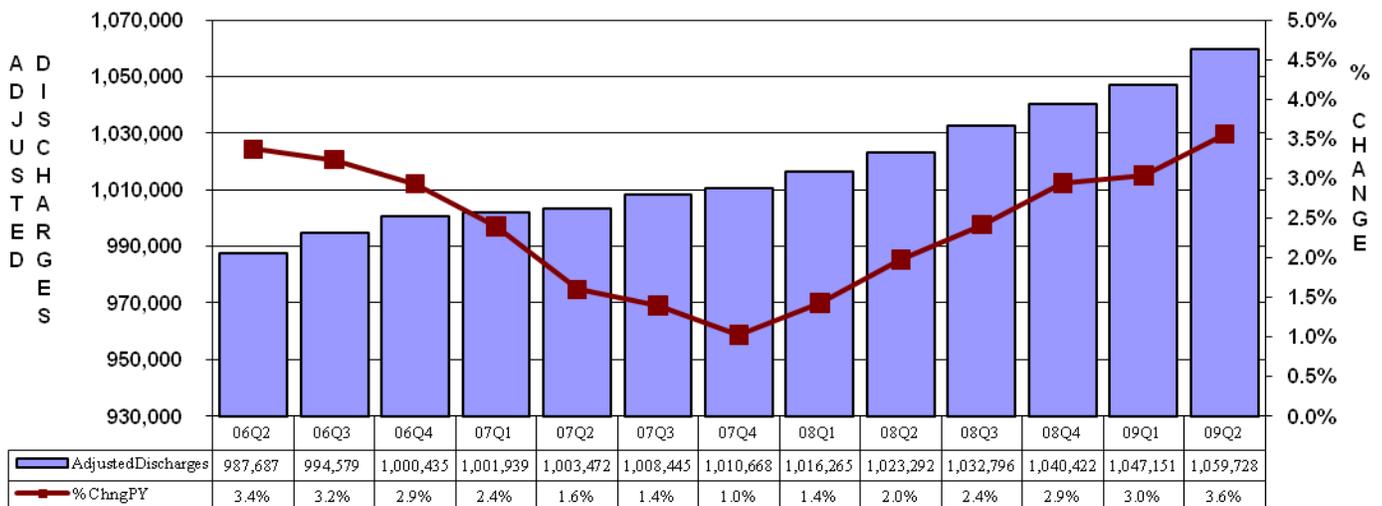
Length of Stay by Payer



Adjusted Discharges

Adjusted discharges reached 1,59,728 in the four-quarter period ended June 30, 2009. This was an increase of 36,436 adjusted discharges, or 3.56%, from the four-quarter period ended June 30, 2008. 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

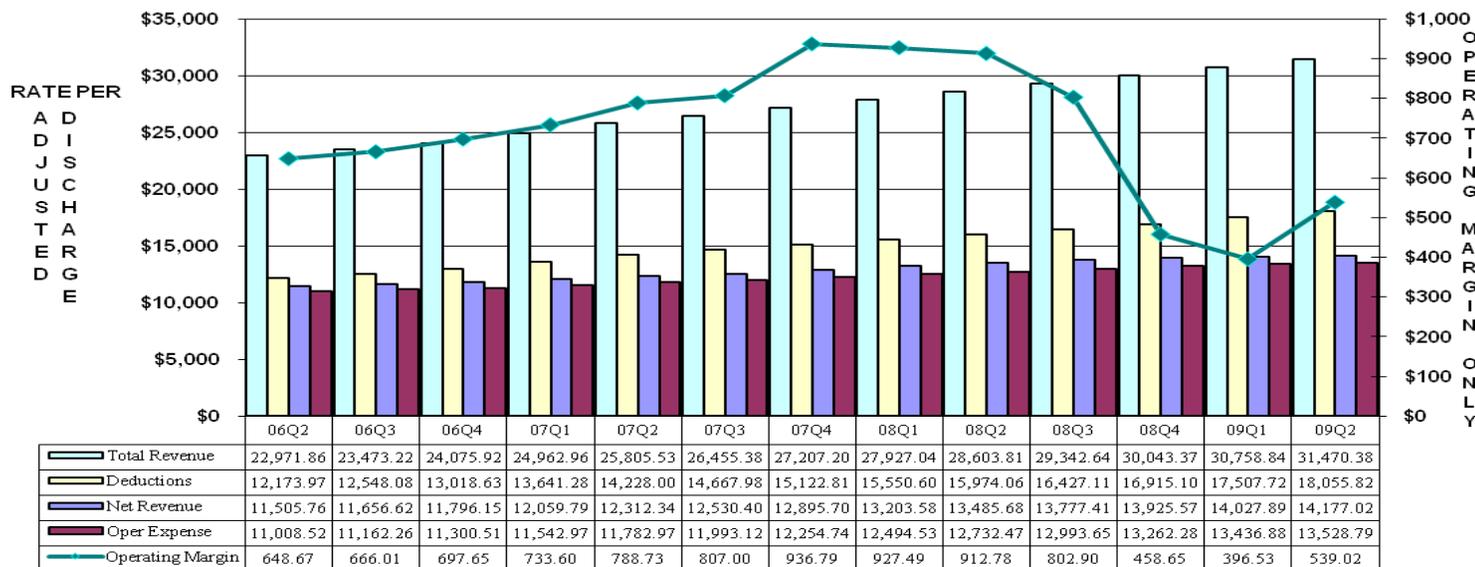


OPERATING INDICATORS

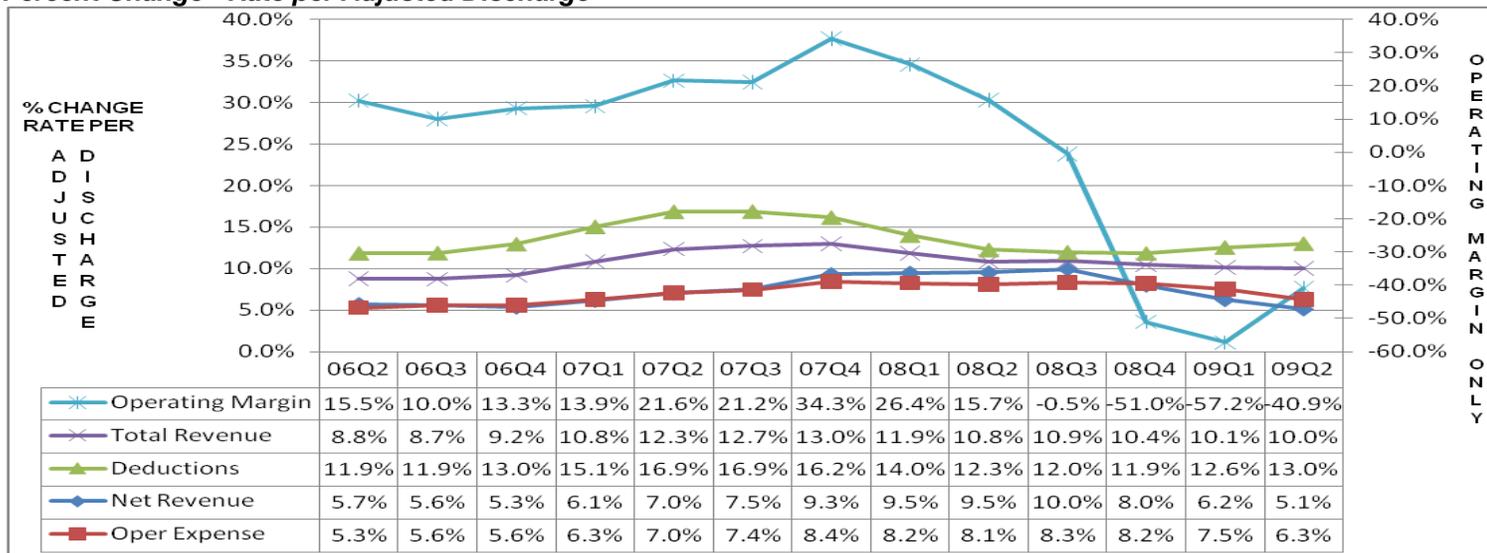
Rates per Adjusted Discharge

When the total dollar amounts for various categories are divided by the adjusted discharge count, the result is 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. Of note this quarter, while total revenue, net revenue, deductions and operating expense each grew between 5.13% and 13.03% over the previous twelve months, operating margin per adjusted discharge declined a dramatic 40.95% below the previous year's value. This is the second largest decline in this value in recent history.

Rate per Adjusted Discharge



Percent Change - Rate per Adjusted Discharge



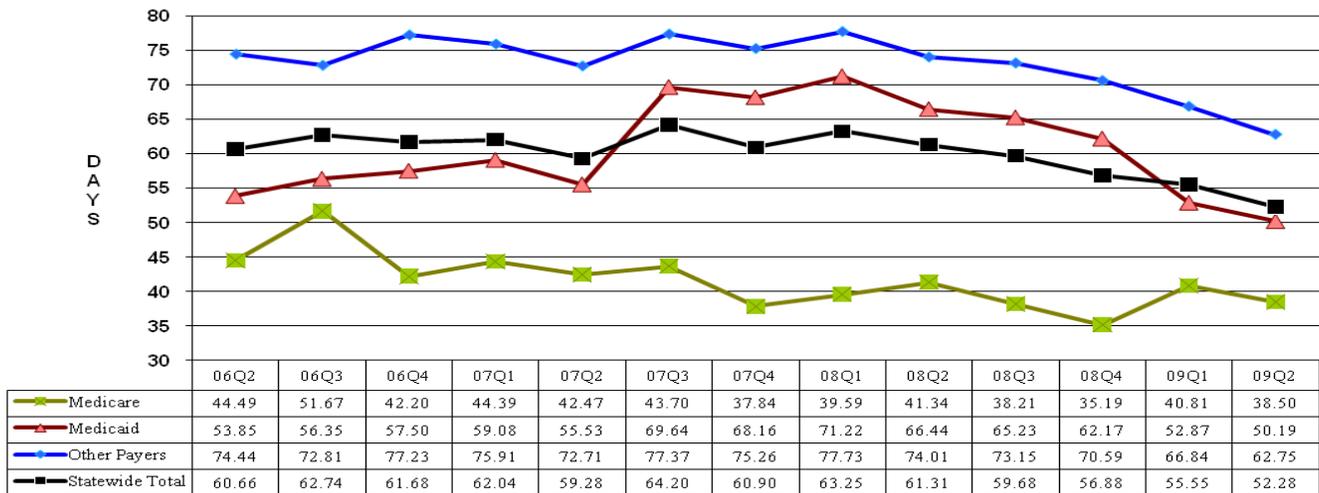
FINANCIAL RATIOS

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 52.3 days for the four-quarter period ending June 30, 2009. This was decrease of 9.0 days, or 14.72%, from the corresponding year earlier period. Medicare accounts receivable decreased by 2.8 days, or 6.87%, to 38.5 days. Accounts receivable for Medicaid decreased by 16.2 days, or 24.46%, to 50.2 days. A decrease of 11.3 days, or 15.21%, to an average of 62.8 days was also noted for the other payer groups.

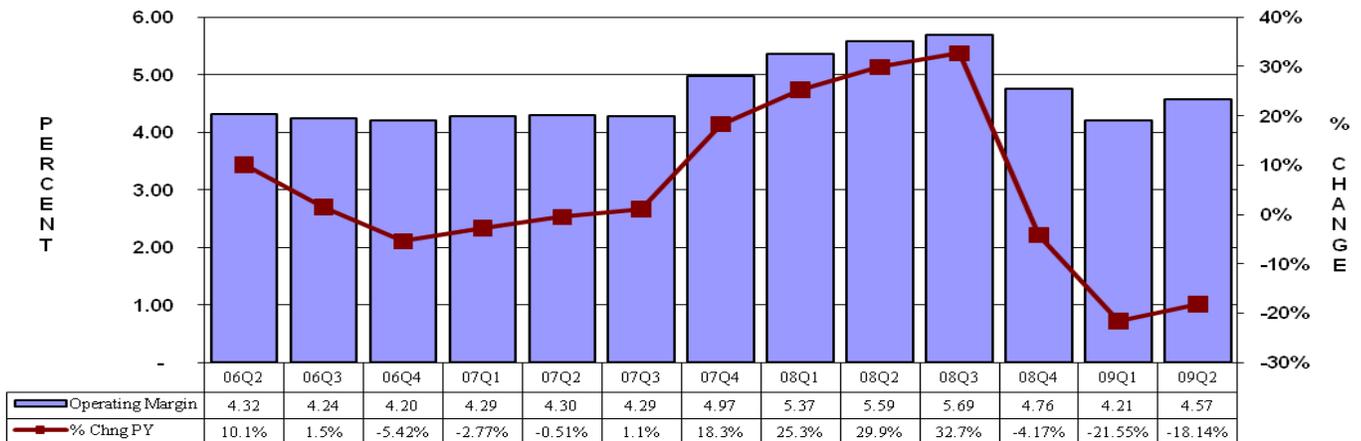
Days in Accounts Receivable by Payer



Operating Margin

During the twelve-month period ended June 30, 2009, operating margin declined to 4.57%, which was 18.14% below the year earlier level. The current period is significantly lower than the five of the previous six periods, but is not low by historical standards. Operating margin includes patient revenue and other operating revenue.

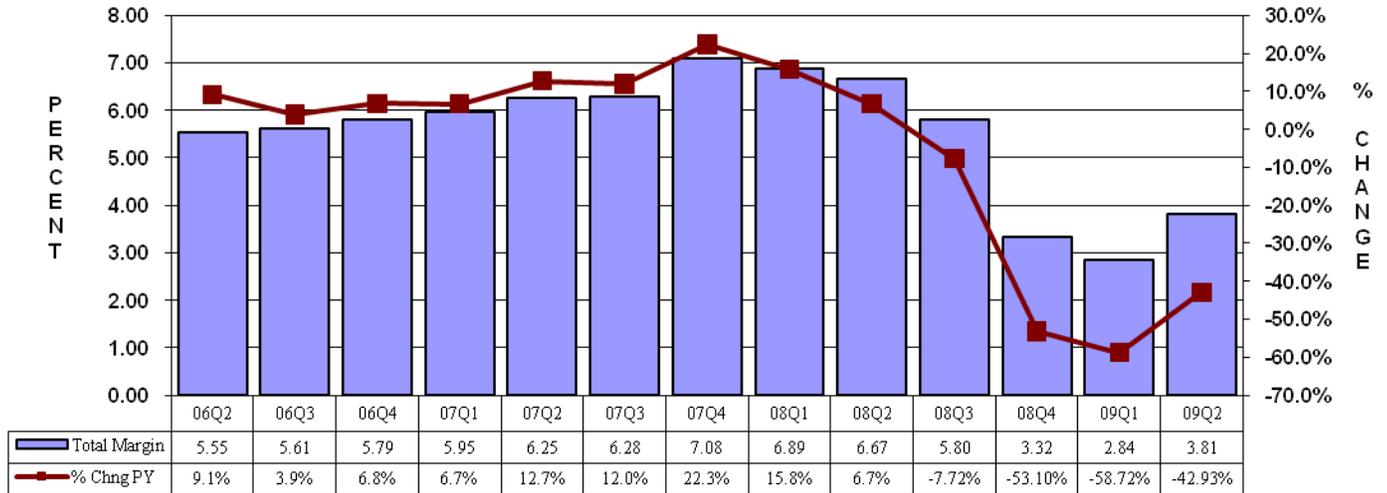
Operating Margin



Total Margin

During the twelve-month period ending June 30, 2009 total margin declined to 3.81%, which was 42.93% below the year earlier level. This is the fourth decline since the year ending March 31, 2005. Total margin includes operating margin plus extraordinary items, federal income taxes and non-operating income.

Total Margin



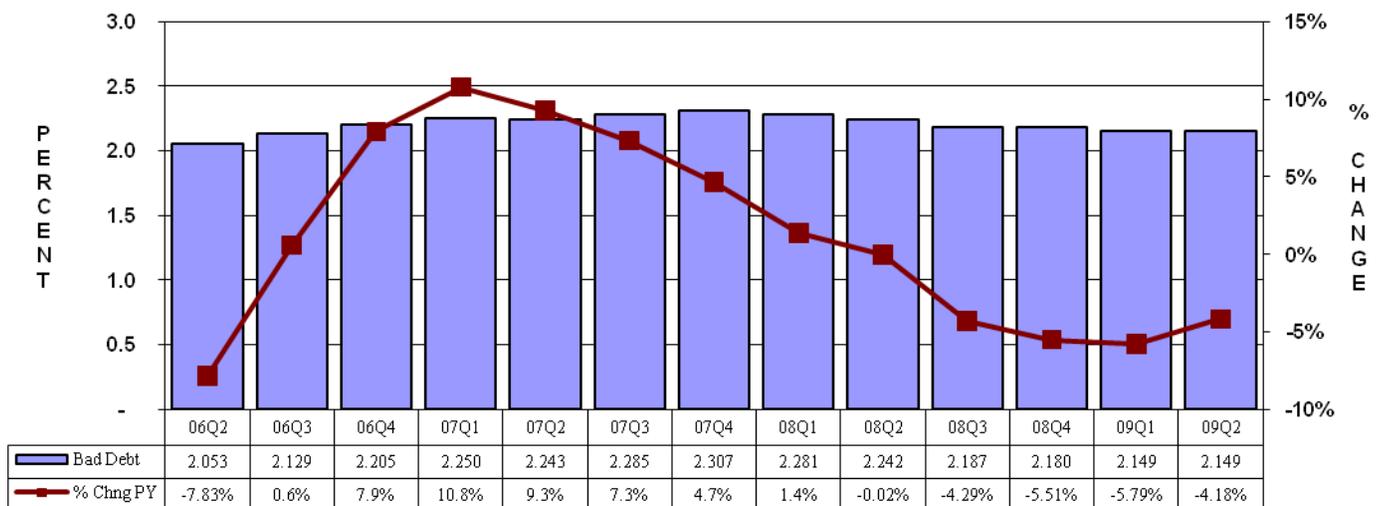
Deductible Proportion Uncompensated Care Proportion

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 was 4.43%, which was a decrease of 0.50% from the previous year.

Bad Debt

In the four quarter period ended June 30, 2009, the bad debt proportion reached 2.15%, which was a decline of 4.18% from the previous year.

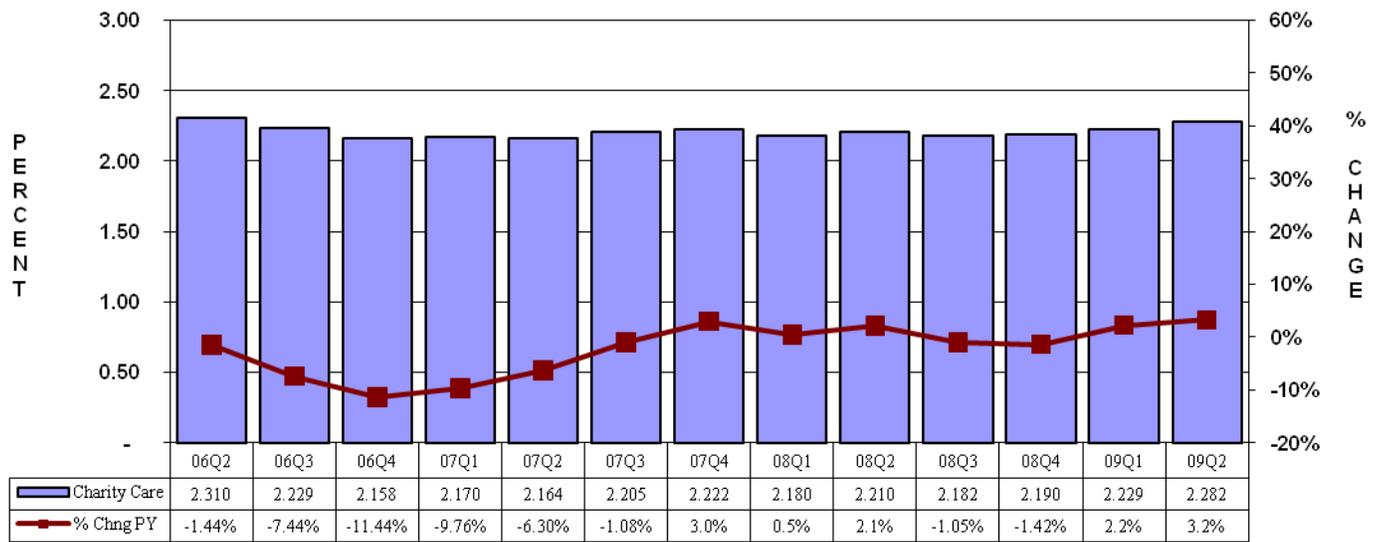
Bad Debt as a Percent of Total Revenue



Charity Care

The charity care proportion reached 2.28%, which was an increase of 3.24% from the previous year.

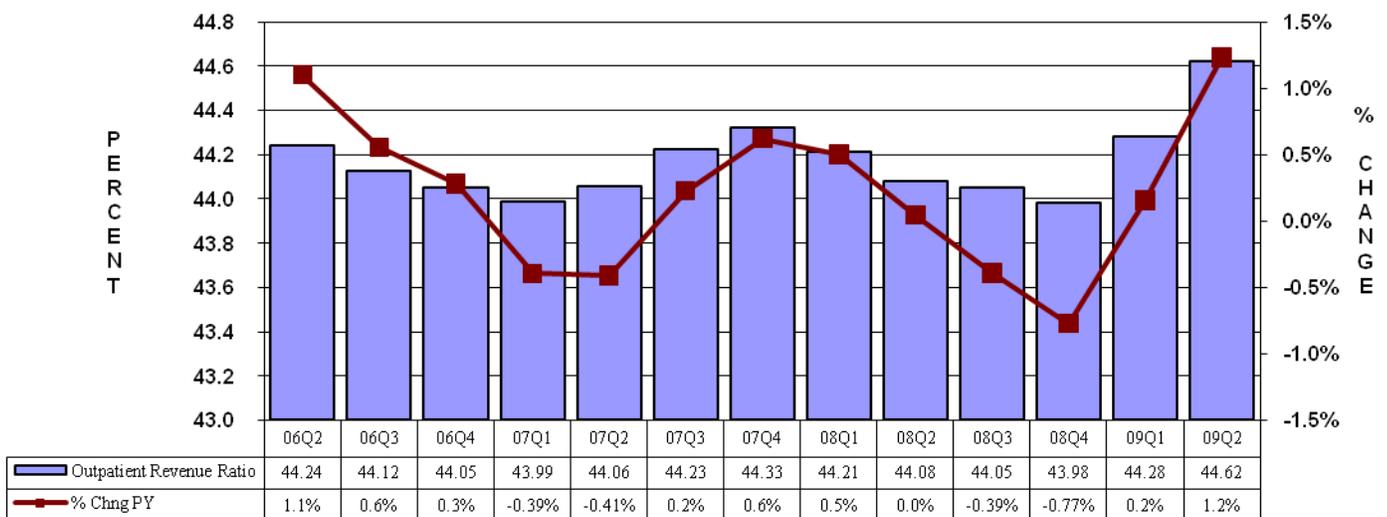
Charity Care as a Percent of Total Revenue



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 June 30, 2008 and June 30, 2009 the outpatient revenue percentage increased from 44.08% to 44.62%, or 1.23%. 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

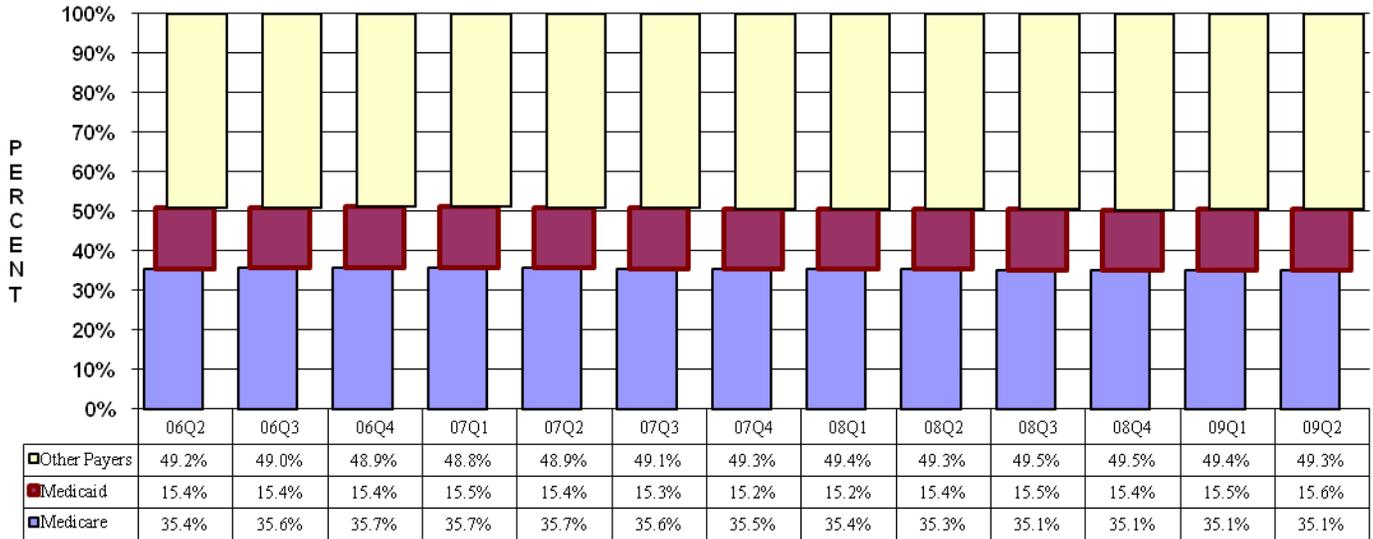


Medicare, Medicaid and Other Revenue

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 June 30, 2009 the Medicare percentage was 35.08%, a decrease of 0.64% from the same period in 2008. The long-term trend it seems is that Medicaid is relatively steady around 15.5% while other seems to be slowly losing percentage points to Medicare. With 50.68% of total patient service revenue, the Medicare and Medicaid programs have a major influence on the financial health of hospitals. Over the three-year period depicted in

the graph below, the other payer portion has fluctuated within a tight band between 48.9% and 49.5%. The current value for other payer is 49.3%.

Revenue proportion by Payer



HOSPITAL PERFORMANCE STATEWIDE	12 Mo. Ended June 30, 2008	12 Mo. Ended June 30, 2009	Total Change	Percent Change
Total Patient Revenue				
Inpatient	16,370,844,520	18,472,485,393	2,101,640,873	12.84%
Outpatient	12,902,094,762	14,881,438,373	1,979,343,611	15.34%
Total	29,272,939,282	33,353,923,766	4,080,984,484	13.94%
Medicare	10,333,649,603	11,698,587,040	1,364,937,437	13.21%
Medicaid	4,499,706,708	5,203,445,135	703,738,427	15.64%
Other	14,439,582,971	16,451,891,591	2,012,308,620	13.94%
Deductions From Revenue				
Contractual Adjustments				
Medicare	6,343,835,227	7,199,738,870	855,903,643	13.49%
Medicaid	2,856,881,766	3,367,675,599	510,793,833	17.88%
Other	6,498,424,178	7,805,824,258	1,307,400,080	20.12%
Total	15,699,141,171	18,373,238,727	2,674,097,556	17.03%
Charity	646,984,560	761,020,508	114,035,948	17.63%
Total	16,346,125,731	19,134,259,235	2,788,133,504	17.06%
Uncompensated Care				
Bad Debt	656,308,113	716,540,861	60,232,748	9.18%
Charity	646,984,560	761,020,508	114,035,948	17.63%
Total	1,303,292,673	1,477,561,369	174,268,696	13.37%
Net Patient Revenue				
Medicare	3,989,814,376	4,498,848,170	509,033,794	12.76%
Medicaid	1,642,824,942	1,835,769,536	192,944,594	11.74%
Other	7,941,158,793	8,646,067,333	704,908,540	8.88%
Total	12,926,813,551	14,219,664,531	1,292,850,980	10.00%
Other Operating Revenue	875,874,590	808,000,476	(67,874,114)	-7.75%
Total Operating Revenue	13,802,688,141	15,027,665,007	1,224,976,866	8.87%
Total Operating Expenses	13,029,035,550	14,336,840,443	1,307,804,893	10.04%
Net Operating Income	773,652,591	690,824,564	(82,828,027)	-10.71%
Non-Operating Income	127,047,073	(153,748,004)	(280,795,077)	-221.02%
Tax Revenue	33,339,105	34,136,333	797,228	2.39%
Net Total Income	934,038,769	571,212,893	(362,825,876)	-38.84%
Gross Accounts Receivable				
Medicare	1,170,346,509	1,233,891,272	63,544,763	5.43%
Medicaid	819,060,054	715,512,033	(103,548,021)	-12.64%
Other	2,927,310,876	2,827,762,490	(99,548,386)	-3.40%
Total	4,916,717,439	4,777,165,795	(139,551,644)	-2.84%
Days in Accounts Receivable				
Medicare	41.3	38.5	(2.8)	-6.87%
Medicaid	66.4	50.2	(16.2)	-24.46%
Other Payers	74.0	62.8	(11.3)	-15.21%
Statewide Total	61.3	52.3	(9.0)	-14.72%
Utilization				
Discharges	572,331	586,980	14,649	2.56%
Patient Days	2,476,080	2,529,324	53,244	2.15%
Length of Stay	4.33	4.31	(0.02)	-0.40%
Adjusted Discharges	1,023,292	1,059,728	36,436	3.56%
Rates per Adjusted Discharge				
Total Revenue	28,606.64	31,474.05	2,867.41	10.02%
Deductions	15,974.06	18,055.82	2,081.76	13.03%
Net Revenue	13,488.51	14,180.68	692.17	5.13%
Operating Expense	12,732.47	13,528.79	796.32	6.25%
Net Margin	912.78	539.02	(373.76)	-40.95%
Financial Ratios				
Operating Margin	5.59	4.57	(1.01)	-18.14%
Total Margin	6.67	3.81	(2.86)	-42.93%
Deductible Proportion	55.85	57.37	1.53	2.74%
Contractual Proportion - Total	53.64	55.09	1.46	2.72%
Contractual Proportion - Medicare	61.39	61.54	0.15	0.25%
Contractual Proportion - Medicaid	63.49	64.72	1.23	1.94%
Contractual Proportion - Other	45.01	47.46	2.44	5.43%
Bad Debt Proportion	2.24	2.15	(0.09)	-4.18%
Charity Proportion	2.21	2.28	0.07	3.24%
Uncompensated Care Proportion	4.45	4.43	(0.02)	-0.50%
Total Revenue/Inpatient Revenue	1.79	1.81	0.02	0.98%
Outpatient Revenue Percent	44.08	44.62	0.54	1.23%
Medicare Revenue Percent	35.30	35.08	(0.23)	-0.64%
Medicaid Revenue Percent	15.37	15.60	0.23	1.49%

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 do not 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 two quarters of 2008 and the first two quarters of 2009. However, this preview is subject to change. The quarterly reports submitted by hospitals contain interim data that have not yet been subjected to audit review. In addition, not all hospitals submit data by the required dates. Future adjustments and/or revisions because 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 June 30, 2009

For additional information, comments, and suggestions,
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