

## 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, Ferry County Memorial Hospital, Othello Community Hospital, Prosser Memorial Hospital and Quincy Valley Medical Center. 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 1.97%. This is the smallest percentage growth since the quarter ended March 31, 2008. Patient days have declined 0.45% in this period, down from 0.6% growth 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 4.25, down slightly from last period's 4.36 days.

Deductions from revenue grew at a 17.2% rate, continuing a cycle where the growth in deductions had been slightly higher each period in 2007 and 2008. The operating revenue grew faster (8.1%) than operating expenses (7.1%) which translates into an operating margin increase of 29.8% from the previous period. Operating expense grew by 7.1%, which is below 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 27.1% compared to recent growth of up to 81.2%. Bad debt continued recent trends with an increase of 12.5%. Charity care and bad debt have both seen volatility in their rates of change in recent periods.

### Statewide Summary of Quarterly Reports

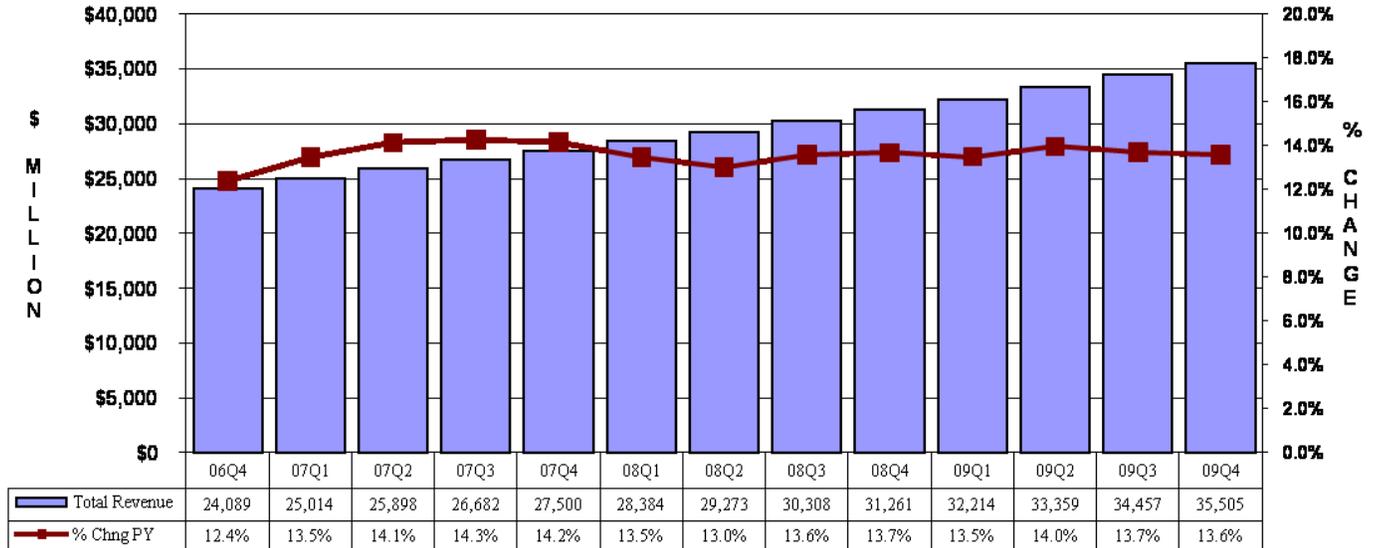
	4 Quarter Period Ending		Percent Difference	2009 Percent of Tot Rev
	12/31/2008	12/31/2009		
Discharges	582,913	594,422	2.0%	
Patient Days	2,539,844	2,528,477	-0.5%	
Average Length of Stay	4.36	4.25	-2.4%	
+ Total Revenue	31,260,848,845	35,504,605,642	13.6%	
- Deductions from Revenue	17,654,342,589	20,691,424,800	17.2%	58.3%
= Net Revenue	13,606,506,256	14,813,180,842	8.9%	41.7%
+ Other Operating Revenue	827,518,213	793,007,870	-4.2%	2.2%
= Operating Revenue	14,434,024,469	15,606,188,712	8.1%	44.0%
- Operating Expenses	13,804,401,408	14,789,229,312	7.1%	41.7%
= Operating Margin	629,623,061	816,959,400	29.8%	2.3%
+ Other Income/Tax Revenue	(244,900,340)	311,503,300	-227.2%	0.9%
= Total Margin	384,722,721	1,128,462,700	193.3%	3.2%
Charity Care	684,599,907	869,936,939	27.1%	2.5%
Bad Debt	675,347,639	759,498,883	12.5%	2.1%
Operating Margin	4.34	5.20	19.8%	
Total Margin	2.69	7.06	162.2%	

## 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 \$4.2 billion from \$31.3 billion to \$35.5 billion for the period ending December 31, 2009. The annual increase rate of 13.6% 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 ten periods and over \$4 billion in the most recent 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.

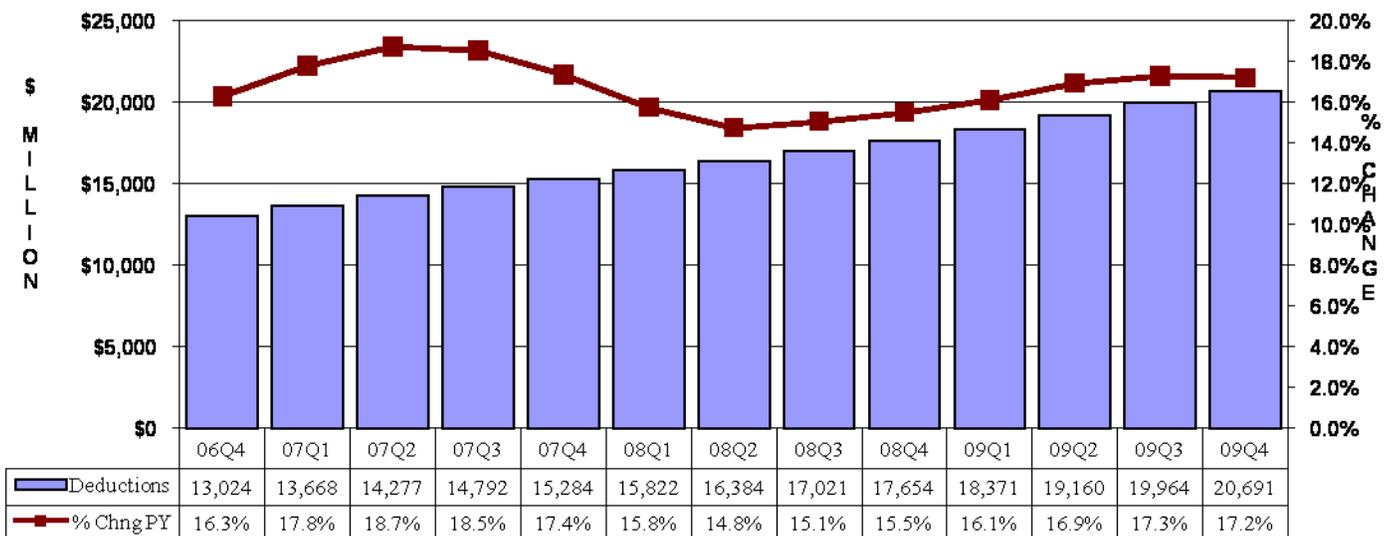
### Total Patient Service Revenue



### Total Deductions from Revenue

For the twelve months ended December 31, 2009 total deductions from revenue reached \$20.7 billion. This was an increase of \$3.0 billion, or 17.2% over the previous period ending December 31, 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.

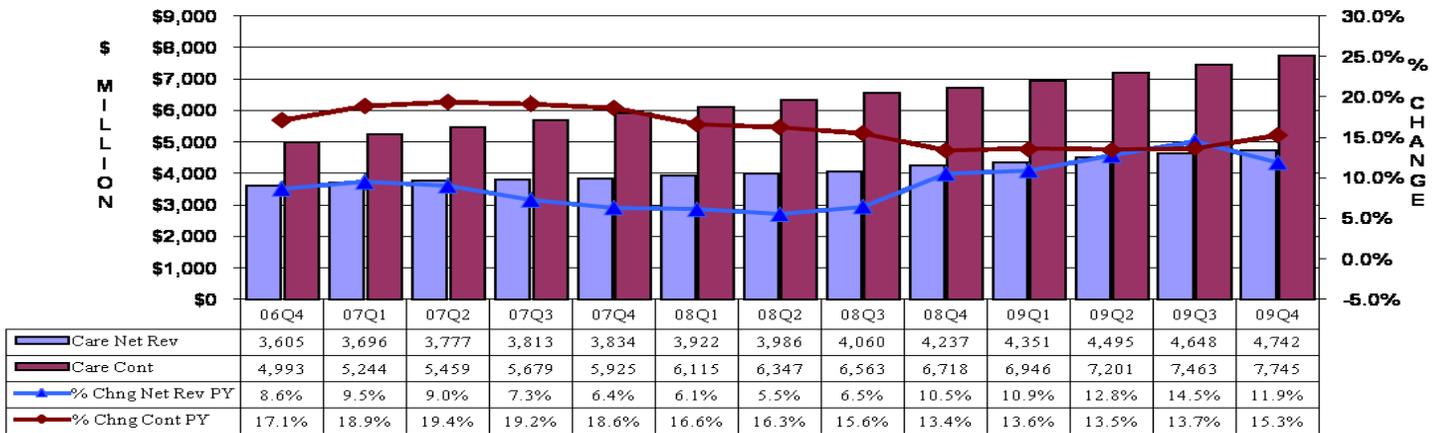
### Total Deductions from Revenue



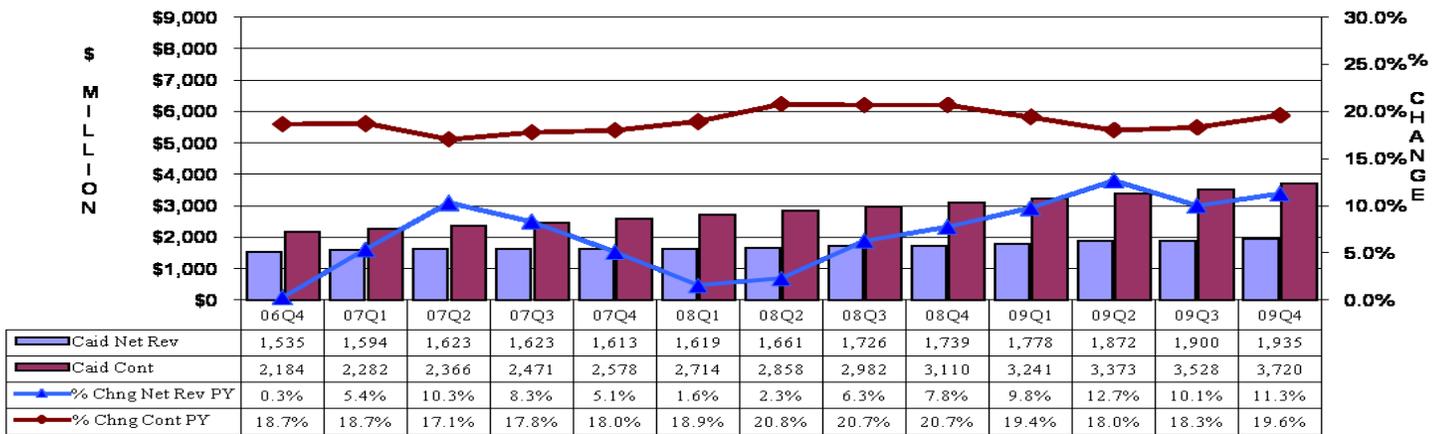
## Contractual Adjustments

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, \$9.0 billion and deductions of \$8.36 billion. Medicare's net revenue of \$4.74 billion is much less than other however the contractuals are similar to other at \$7.75 billion. Medicaid net revenue was \$1.94 billion and deductions were \$3.72 billion. Based on the hospital's rate sheet, or billed revenue, hospitals bill Medicare an average of \$2.63 for each dollar they receive, other payers an average of \$1.93 and Medicaid an average of \$2.92.

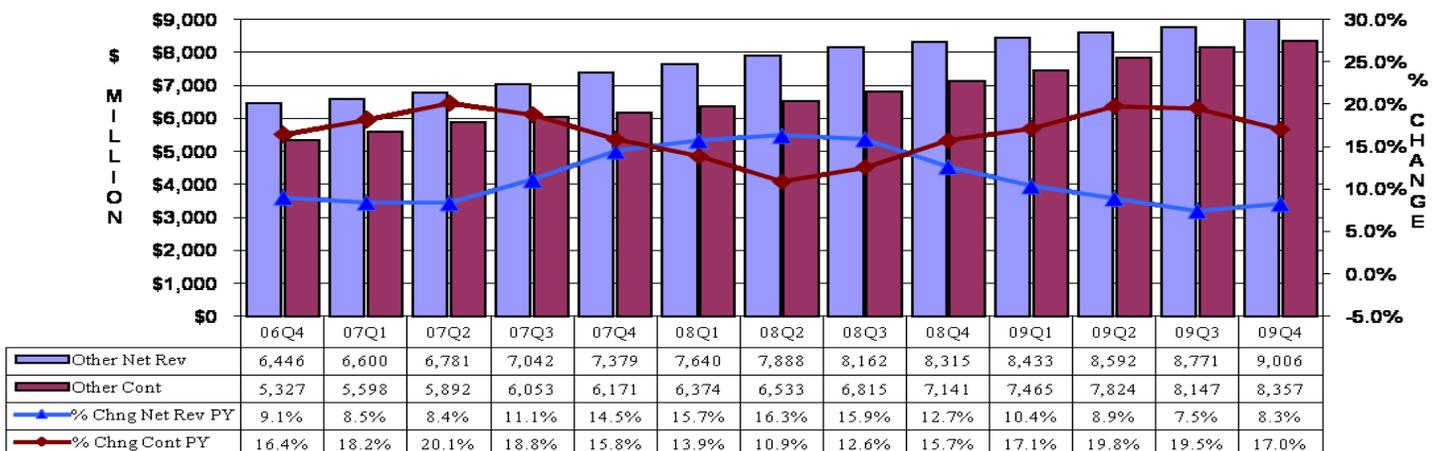
### Medicare Contractuals



### 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 27.07% and bad debt has increased by 12.46%, for a total increase in uncompensated care of 19.82%.

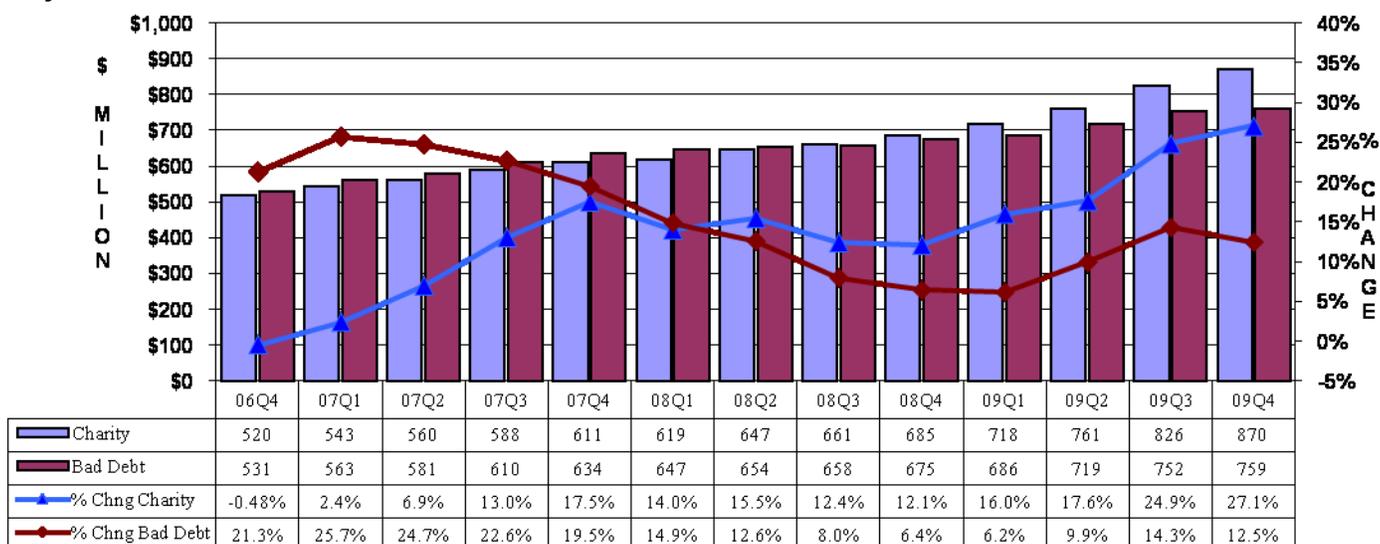
### Charity

While charity care is only 2.45% of billed revenue, the dollar amount and percentage have been growing very rapidly during the past five years. Recently, during the December 31, 2008 to December 31, 2009 period, charity care has increased 27.07% or \$185 million.

### Bad Debt

The bad debt dollar amount has grown from \$675 million for the four quarters ending December 31, 2008 to \$759 million for the period ending December 31, 2009, which is a 12.46% increase. Bad debt had been slowing its rate of increase since the four quarters ending December 31, 2005 until the last three quarters.

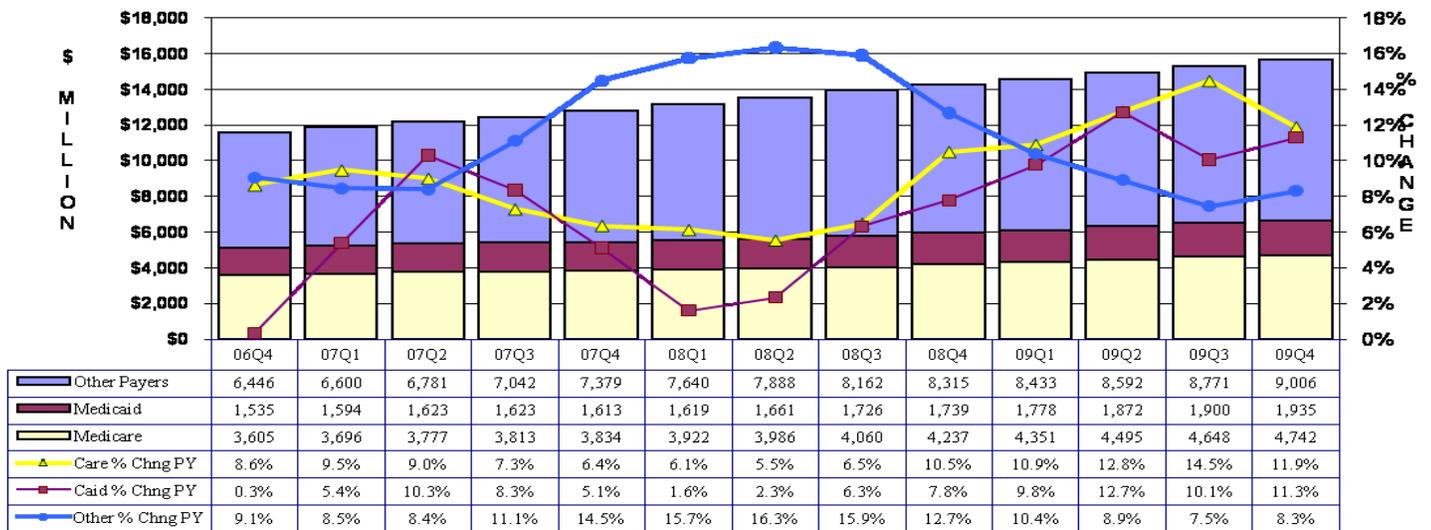
### Charity and Bad Debt



### Net Patient Services Revenue

During the twelve-month period ended December 31, 2009, net patient service revenue grew by 8.87%, or \$1.21 billion, from \$13.6 billion to \$14.8 billion. Other payer continues its strong percentage and dollar growth (8.32%, \$691 million). The percentage change by payer from the previous year period shows that Medicare had an 11.90% increase and other had an 8.32% increase over the twelve month period ending December 31, 2008. Medicaid revenue increased 16.61% while Medicaid deductions increased by 19.58%, increasing the net patient service revenue for Medicaid by 11.29% from the previous period.

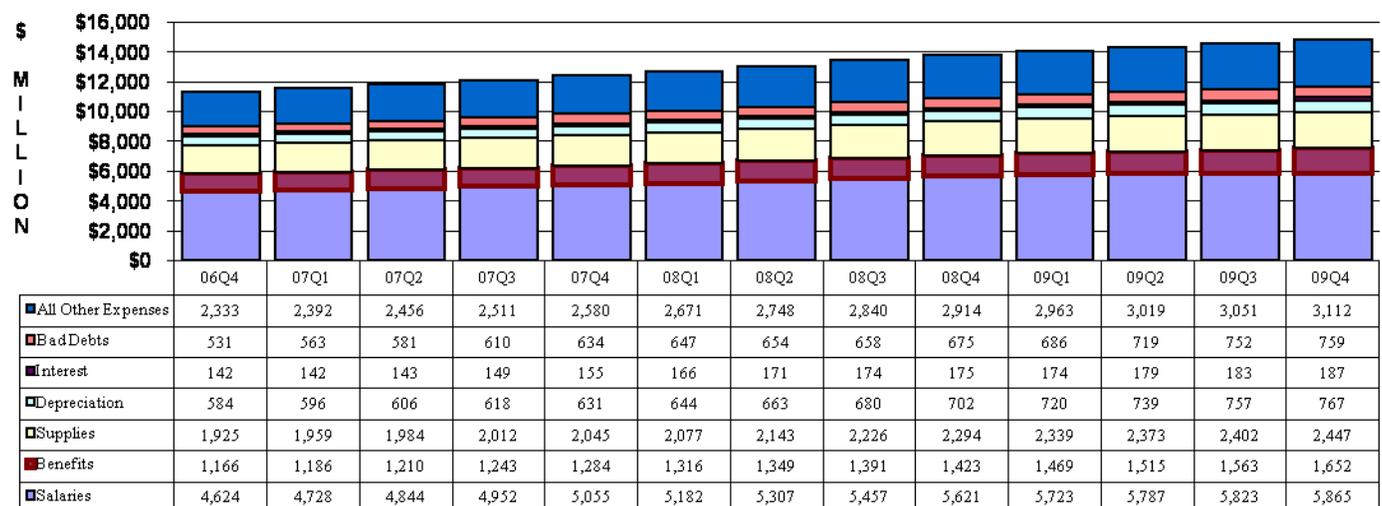
## Net Patient Service Revenue by Payer



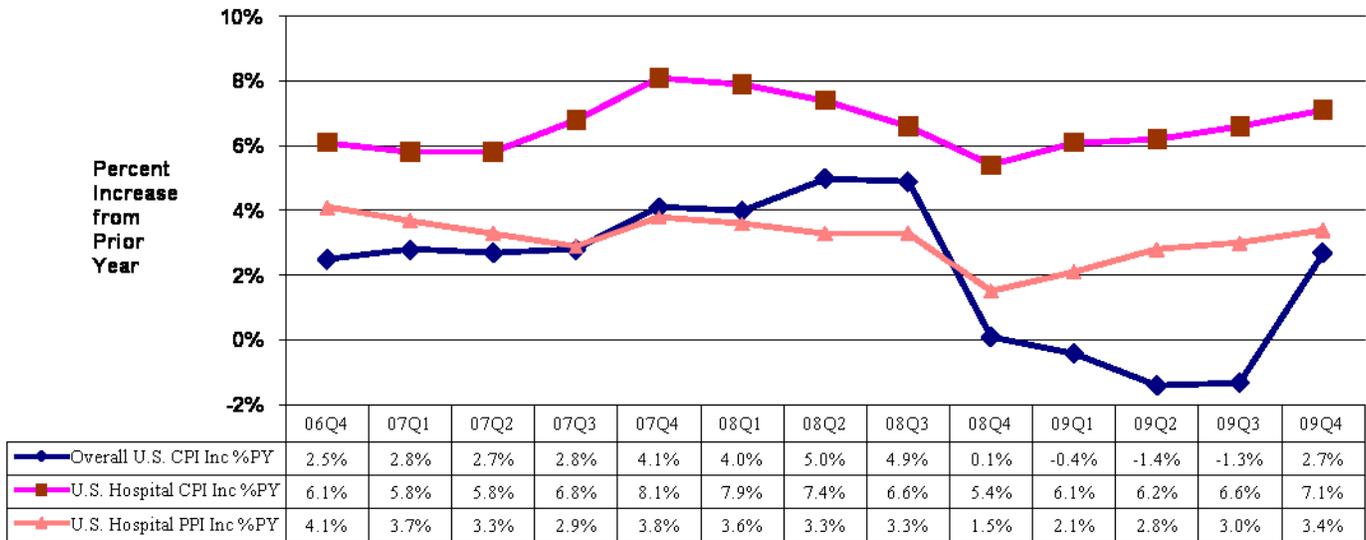
## Operating Expenses

Operating expenses are the costs of providing health care services to hospital patients. Growing by 7.13%, or \$984 million, operating expenses reached \$14.8 billion in the twelve-month period ended December 31, 2009. Adjusted discharges increased 4.34% during the same period. Operating expenses per adjusted discharge increased by 2.68%. The 2.68% increase was virtually the same as the 2.7% annual decrease in the overall United States consumer price index but far below the 7.1% annual increase in the United States hospital services component of the index for the same period of December 2008 to December 2009. The category with the largest dollar increase in operating expenses was salaries at 4.3% or \$244 million for a total of \$5,865 million despite having the smallest percentage increase. The category with the largest percentage increase in operating expenses was benefits at 16.1%, or \$229 million for a total of \$1,652 million. Interest expense had the smallest dollar increases during the same period.

## Operating Expense



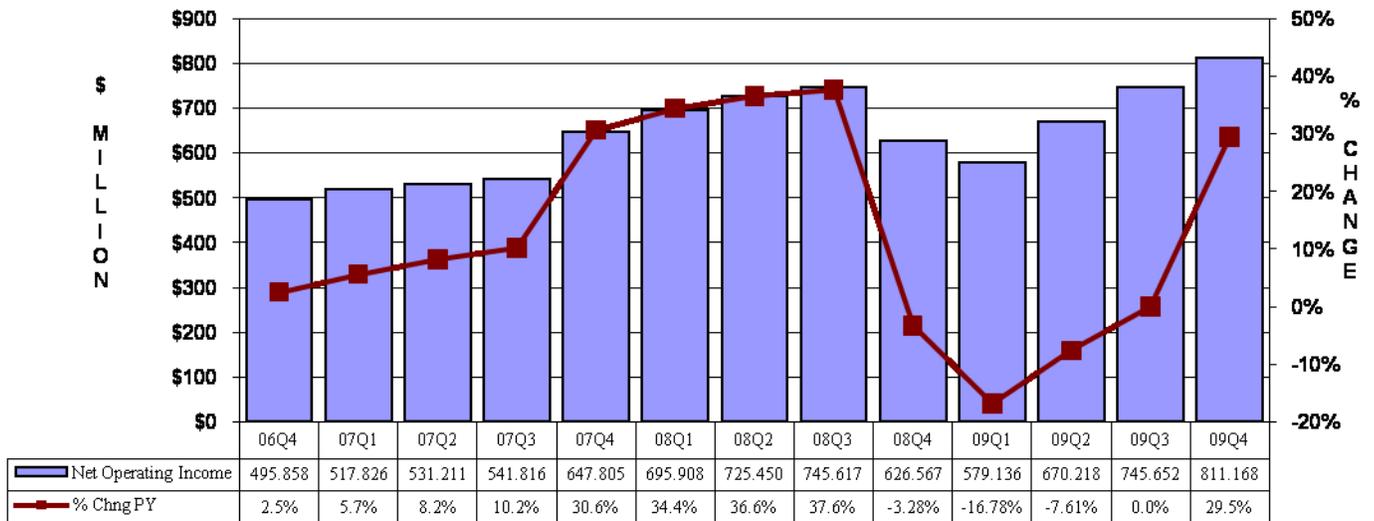
## United States Consumer Price Index and Produce Price Index change from previous year (Overall vs. Hospital)



### Net Operating Income

During the four quarters ended December 31, 2009 net operating income equaled \$811 million, which was up 29.5% from the year ago level. This is the highest rate of growth since the year ending September 30, 2008. It is also the only significant increase since that period. 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 8.12% and operating expense, which grew 7.13%, caused the 29.5% increase in net operating income. Net operating income includes other operating income.

### Net Operating Income

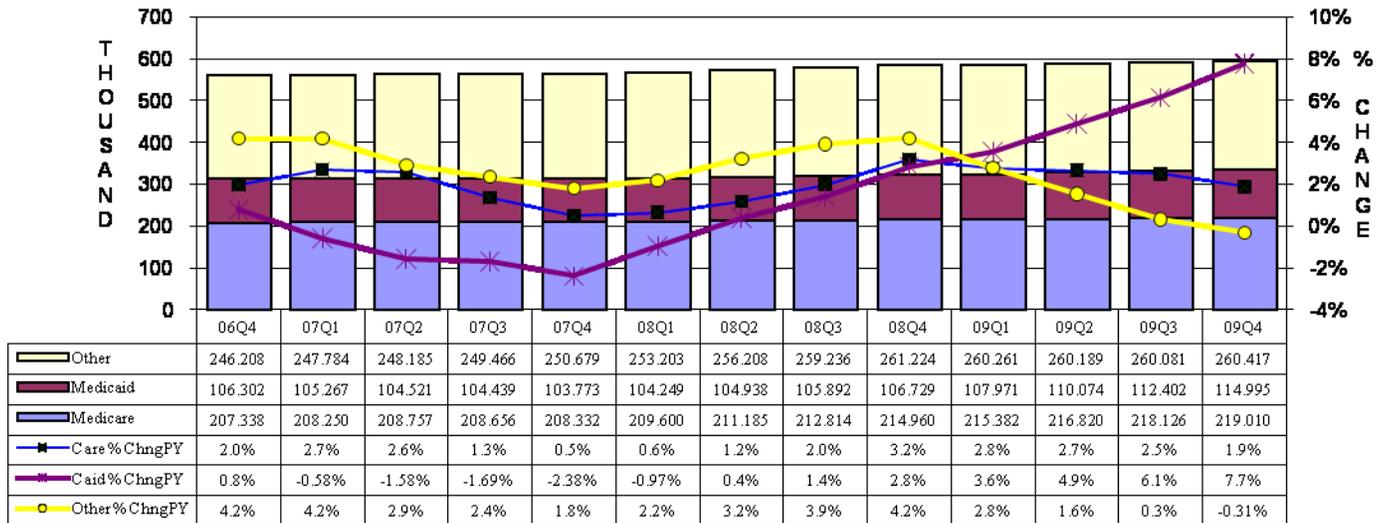


## UTILIZATION INDICATORS

### Discharges

Discharges and patient days are the primary indicators of inpatient activity. Discharges continued to grow slowly, reaching 594,422 discharges during the four quarters ending December 31, 2009. This was a gain of 11,509 discharges, or 1.97%, over the corresponding 2008 period. Medicaid discharges increased 7.7%, while Medicare discharges increased 1.9% and other discharges decreased by 0.3%.

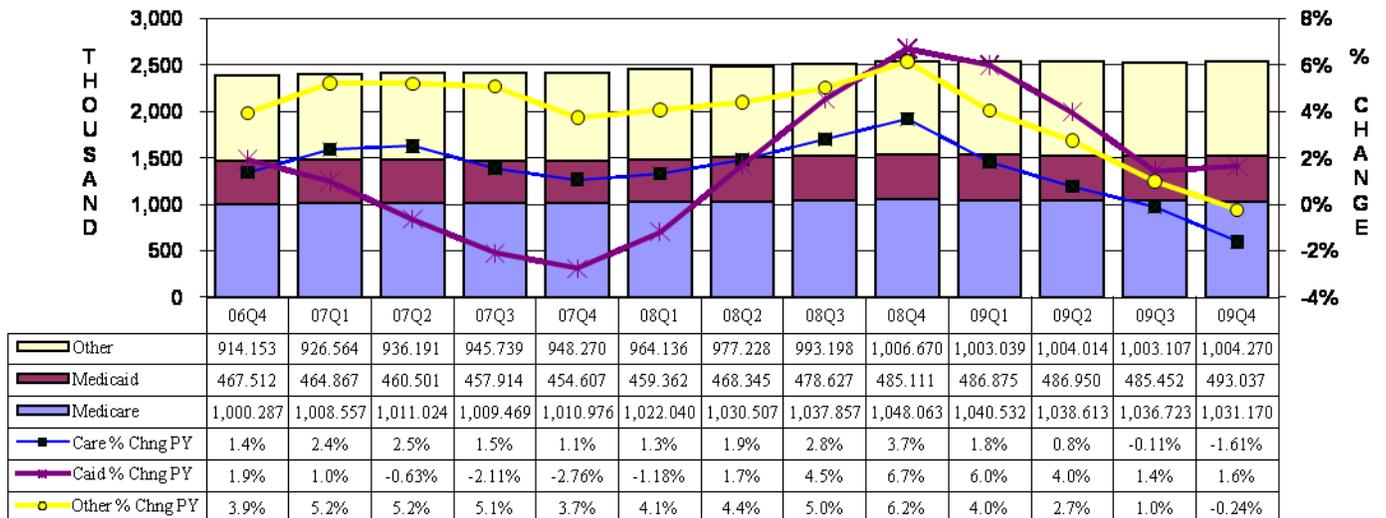
### Discharges by Payer



### Patient Days

Patient days declined modestly, reaching 2,528,477 during the four quarters ending December 31, 2009. This was a decrease of 11,367 patient days, or 0.45%, from the corresponding year ago period. Medicare days decreased 1.61%, Medicaid days increased 1.6% and other decreased by 0.24%.

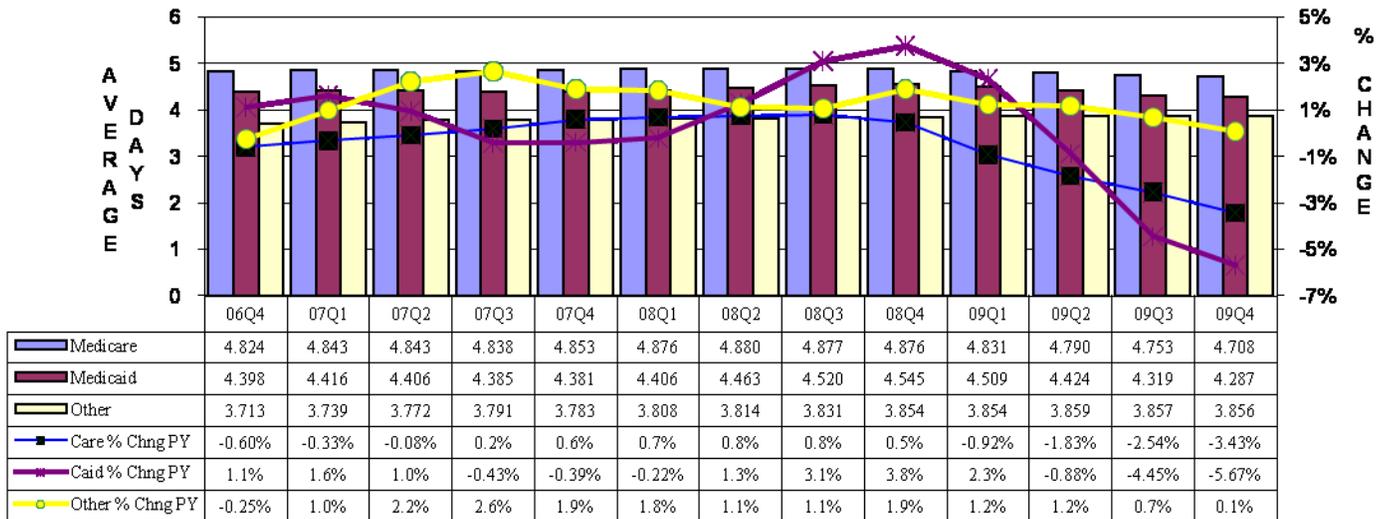
### Patient Days by Payer



## Length of Stay

Since the statewide discharges increased during the four quarters ending December 31, 2009, while patient days declined, statewide average length of stay decreased slightly to 4.25 days, or 2.68%. During the four quarters ended December 31, 2009, the average length of stay has decreased by 0.10 days from the previous period ending December 31, 2008. In the latest period, Medicare average length of stay was 4.71, Medicaid was 4.29, and other was 3.86. Medicare ALOS was 9.8% higher than Medicaid and 12.2% higher than Other Payer.

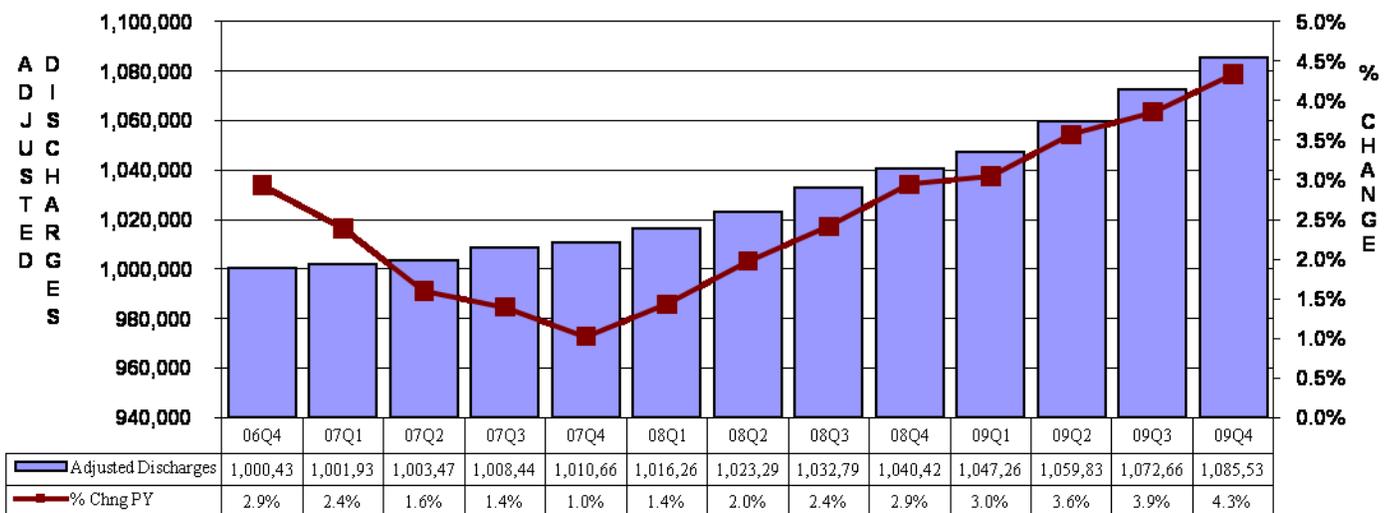
## Length of Stay by Payer



## Adjusted Discharges

Adjusted discharges reached 1,085,531 in the four-quarter period ended December 31, 2009. This was an increase of 45,109 adjusted discharges, or 4.34%, from the four-quarter period ended December 31, 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

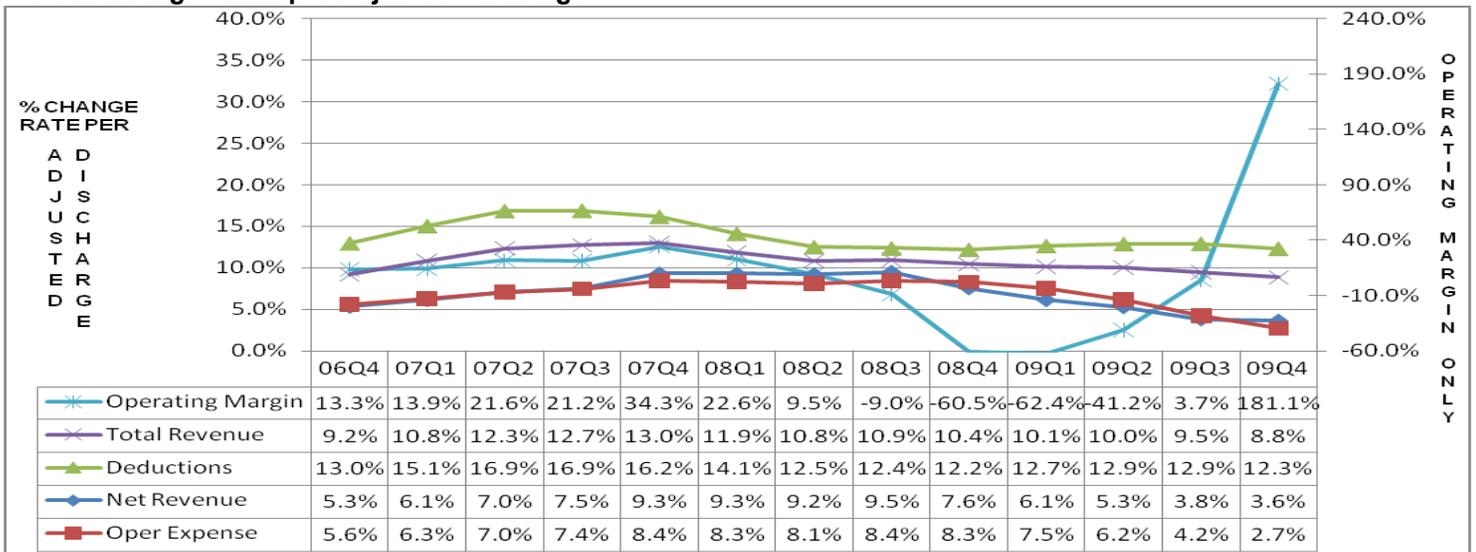
### Rates per Adjusted Discharge

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 2.68% and 12.33% over the previous twelve months, operating margin per adjusted discharge increased a dramatic 181.13% above the previous year's value. This decline is markedly smaller than the large declines from the previous three rolling twelve-month periods.

### Rate per Adjusted Discharge



### Percent Change - Rate per Adjusted Discharge



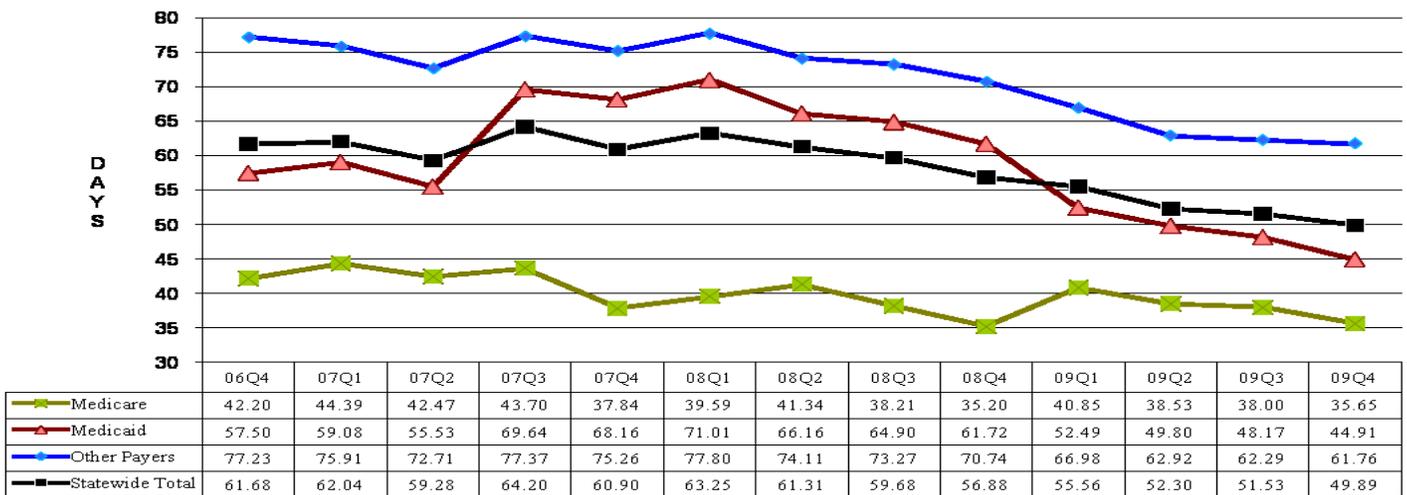
## FINANCIAL RATIOS

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 49.9 days for the four-quarter period ending December 31, 2009. This was a decrease of 7 days, or 12.30%, from the corresponding year earlier period. Medicare accounts receivable increased by 0.52 days, or 1.28%, to 35.7 days. Accounts receivable for Medicaid decreased by 16.8 days, or 27.23%, to 44.9 days. A decrease of 9.0 days, or 12.7%, to an average of 61.8 days was also noted for the other payer groups.

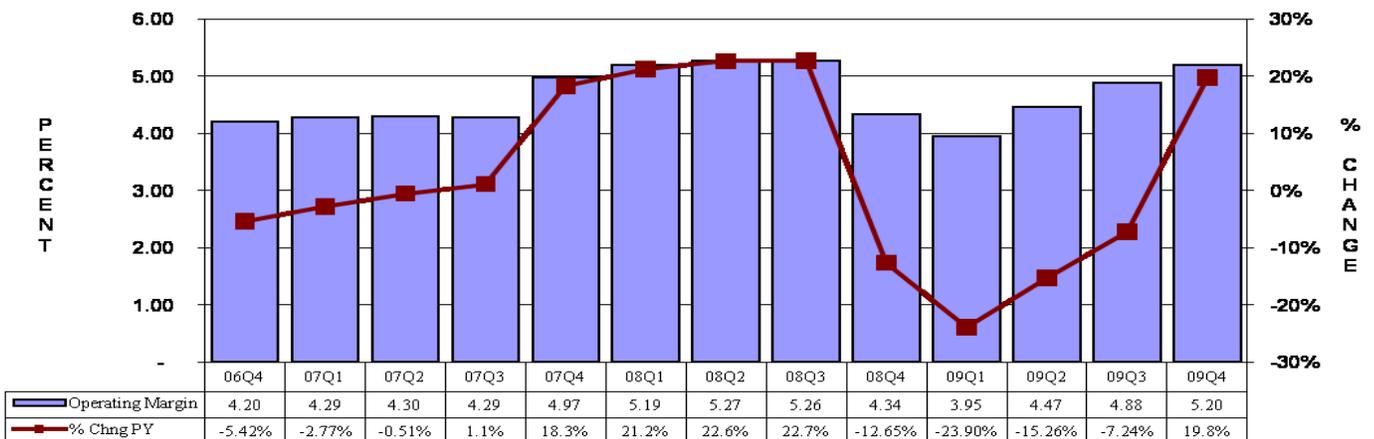
### Days in Accounts Receivable by Payer



### Operating Margin

During the twelve-month period ended December 31, 2009, operating margin increased to 5.20%, which was 19.76% above the year earlier level. The current period is showing some improvement over the declines shown in 2009 and is approaching 2008 levels. Operating margin includes patient revenue and other operating revenue.

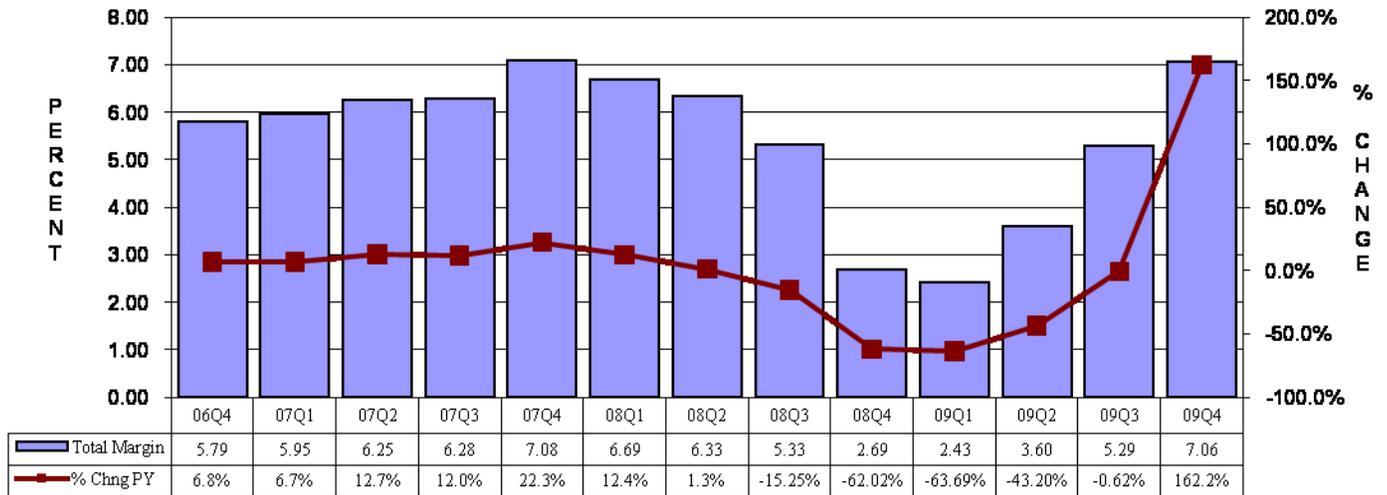
### Operating Margin



## Total Margin

During the twelve-month period ending December 31, 2009 total margin increased to 7.06%, which was 162.2% above the year earlier level. This is the first increase after five consecutive declines. Total margin includes operating margin plus extraordinary items, federal income taxes and non-operating income.

## Total Margin



## Deductible Proportion

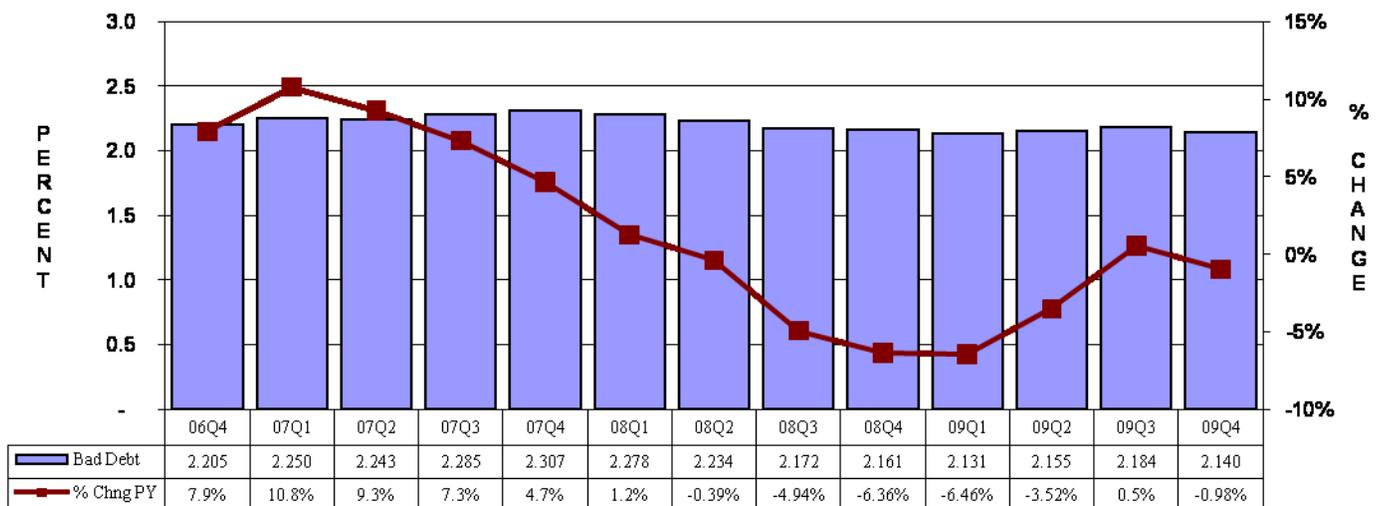
### Uncompensated Care Proportion

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 4.59%, which was an increase of 5.50% over the previous year.

### Bad Debt

In the four quarter period ended December 31, 2009, the bad debt proportion reached 2.14%, which was a decrease of 0.02% below the previous year.

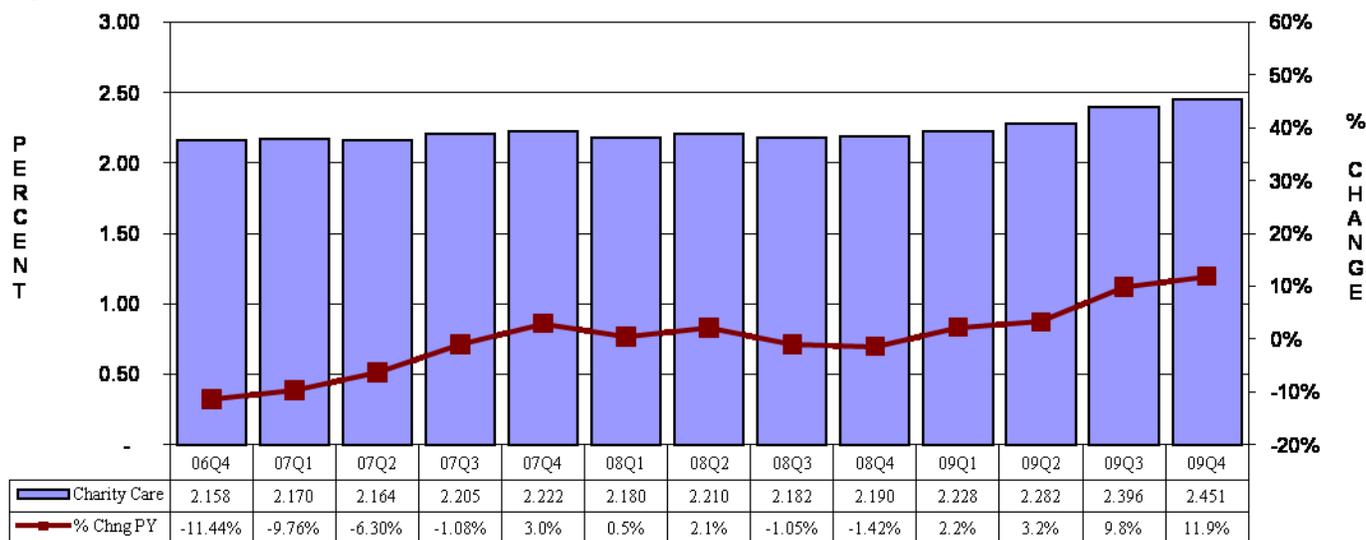
### Bad Debt as a Percent of Total Revenue



## Charity Care

The charity care proportion reached 2.45%, which was an increase of 11.89% over the previous year.

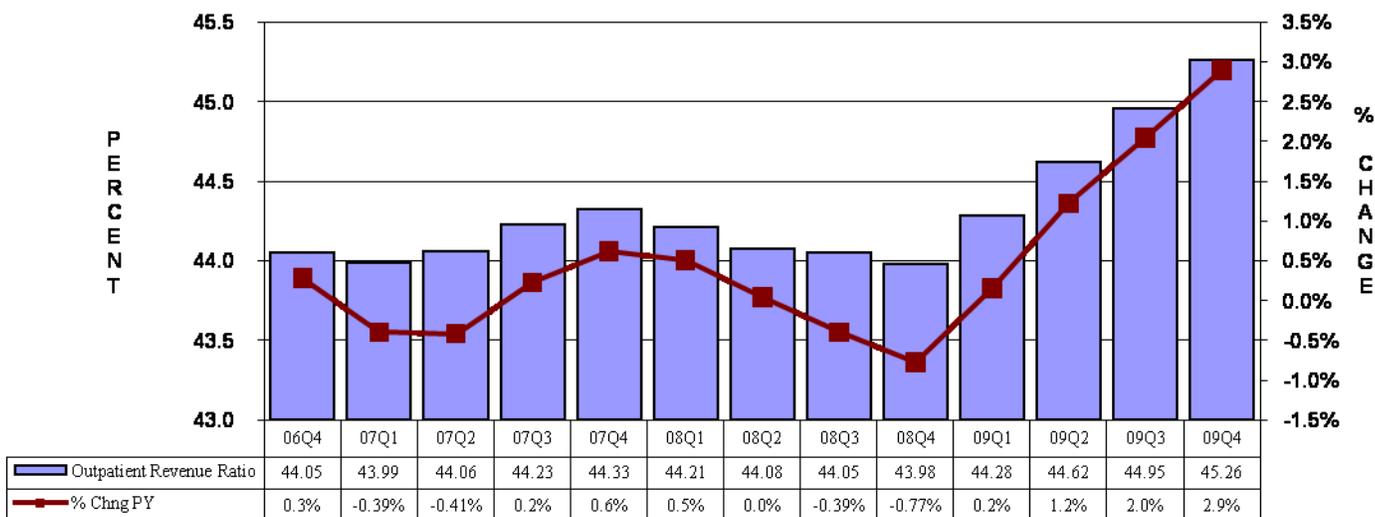
### Charity Care as a Percent of Total Revenue



## 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 December 31, 2008 and December 31, 2009 the outpatient revenue percentage increased from 43.98% to 45.26%, or 2.9%. 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.

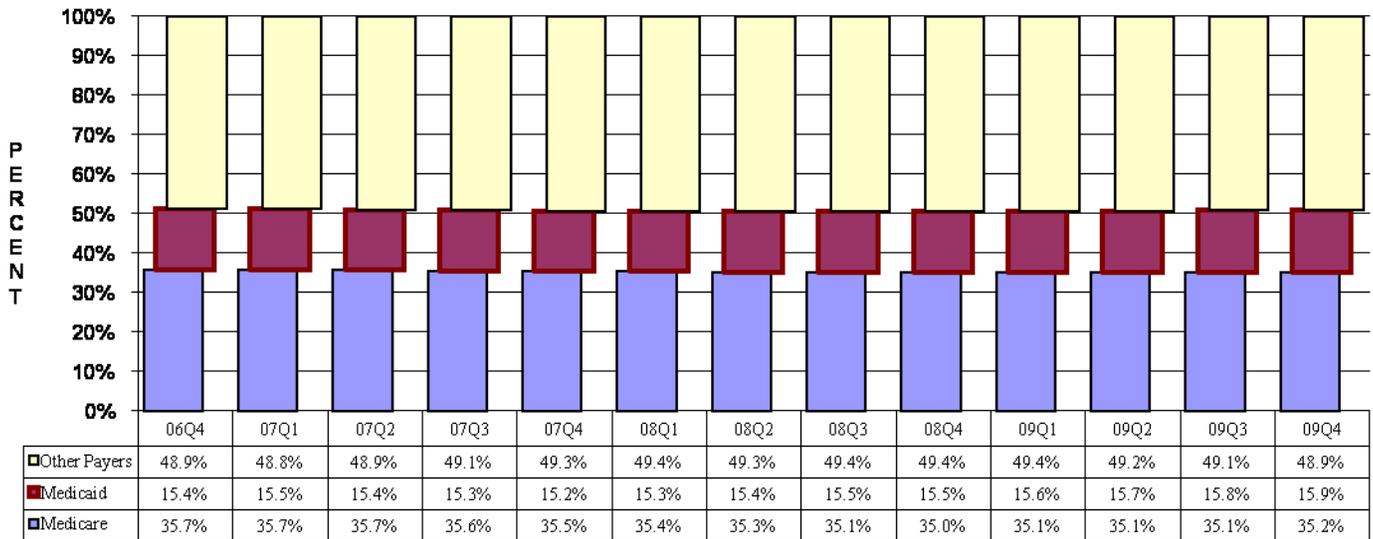
### Outpatient Revenue as a percent of Total Revenue



### 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 December 31, 2009 the Medicare percentage was 35.18%, an increase of 0.36% 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 slowing losing percentage points to Medicare. With 51.11% 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 48.8% and 49.5%. The current value for other payer is 48.89%.

Revenue proportion by Payer



HOSPITAL PERFORMANCE STATEWIDE	12 Mo. Ended December 31, 2008	12 Mo. Ended December 31, 2009	Total Change	Percent Change
Total Patient Revenue				
Inpatient	17,512,668,817	19,438,661,803	1,925,992,986	11.00%
Outpatient	13,748,180,028	16,065,943,839	2,317,763,811	16.86%
Total	31,260,848,845	35,504,605,642	4,243,756,797	13.58%
Medicare	10,955,805,673	12,486,890,828	1,531,085,155	13.98%
Medicaid	4,849,434,739	5,654,921,199	805,486,460	16.61%
Other	15,455,608,433	17,362,793,615	1,907,185,182	12.34%
Deductions From Revenue				
Contractual Adjustments				
Medicare	6,718,445,534	7,745,377,838	1,026,932,304	15.29%
Medicaid	3,110,491,627	3,719,587,864	609,096,237	19.58%
Other	7,140,805,521	8,356,522,159	1,215,716,638	17.02%
Total	16,969,742,682	19,821,487,861	2,851,745,179	16.80%
Charity	684,599,907	869,936,939	185,337,032	27.07%
Total	17,654,342,589	20,691,424,800	3,037,082,211	17.20%
Uncompensated Care				
Bad Debt	675,347,639	759,498,883	84,151,244	12.46%
Charity	684,599,907	869,936,939	185,337,032	27.07%
Total	1,359,947,546	1,629,435,822	269,488,276	19.82%
Net Patient Revenue				
Medicare	4,237,360,139	4,741,512,990	504,152,851	11.90%
Medicaid	1,738,943,112	1,935,333,335	196,390,223	11.29%
Other	8,314,802,912	9,006,271,456	691,468,544	8.32%
Total	13,606,506,256	14,813,180,842	1,206,674,586	8.87%
Other Operating Revenue	827,518,213	793,007,870	(34,510,343)	-4.17%
Total Operating Revenue	14,434,024,469	15,606,188,712	1,172,164,243	8.12%
Total Operating Expenses	13,804,401,408	14,789,229,312	984,827,904	7.13%
Net Operating Income	629,623,061	816,959,400	187,336,339	29.75%
Non-Operating Income	(277,900,222)	274,508,369	552,408,591	-198.78%
Tax Revenue	32,999,882	36,994,931	3,995,049	12.11%
Net Total Income	384,722,721	1,128,462,700	743,739,979	193.32%
Gross Accounts Receivable				
Medicare	1,056,583,048	1,219,637,365	163,054,317	15.43%
Medicaid	820,006,640	695,801,396	(124,205,244)	-15.15%
Other	2,994,887,193	2,936,669,079	(58,218,114)	-1.94%
Total	4,871,476,881	4,852,107,840	(19,369,041)	-0.40%
Days in Accounts Receivable				
Medicare	35.2	35.7	0.5	1.28%
Medicaid	61.7	44.9	(16.8)	-27.23%
Other Payers	70.7	61.8	(9.0)	-12.70%
Statewide Total	56.9	49.9	(7.0)	-12.30%
Utilization				
Discharges	582,913	594,422	11,509	1.97%
Patient Days	2,539,844	2,528,477	(11,367)	-0.45%
Length of Stay	4.36	4.25	(0.10)	-2.38%
Adjusted Discharges	1,040,422	1,085,531	45,109	4.34%
Rates per Adjusted Discharge				
Total Revenue	30,046.30	32,707.12	2,660.82	8.86%
Deductions	16,968.44	19,061.10	2,092.67	12.33%
Net Revenue	13,873.23	14,376.54	503.31	3.63%
Operating Expense	13,268.07	13,623.95	355.88	2.68%
Net Margin	369.78	1,039.55	669.77	181.13%
Financial Ratios				
Operating Margin	4.34	5.20	0.86	19.76%
Total Margin	2.69	7.06	4.37	162.25%
Deductible Proportion	56.48	58.29	1.81	3.20%
Contractual Proportion - Total	54.29	55.84	1.55	2.85%
Contractual Proportion - Medicare	61.32	62.03	0.70	1.15%
Contractual Proportion - Medicaid	64.14	65.78	1.63	2.55%
Contractual Proportion - Other	46.21	48.14	1.93	4.18%
Bad Debt Proportion	2.16	2.14	(0.02)	-0.98%
Charity Proportion	2.19	2.45	0.26	11.89%
Uncompensated Care Proportion	4.35	4.59	0.24	5.50%
Total Revenue/Inpatient Revenue	1.78	1.83	0.04	2.32%
Outpatient Revenue Percent	43.98	45.26	1.27	2.90%
Medicare Revenue Percent	35.05	35.18	0.13	0.36%
Medicaid Revenue Percent	15.51	15.93	0.42	2.68%

## 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 all four 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 December 31, 2009

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) 236-4210  
FAX: (360) 664-8579

Electronic Mail: [Randall.Huyck@doh.wa.gov](mailto:Randall.Huyck@doh.wa.gov)

Mary Selecky, Secretary  
Department of Health

Dennis M. Dennis, Assistant Secretary  
Epidemiology, Health Statistics and Public Health Laboratories

Christy Spice, State Registrar & Director  
Center for Health Statistics

Author: Randy Huyck