Oregon Acute Care Hospitals

Annual Financials Reporting Highlights

2015

Oregon Health Authority

Office of Health Analytics

Presented July 25th, 2016

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Executive Summary

Each year the Oregon Health Authority collects financial data from acute care hospitals as authorized by ORS 442.400 to 442.463. The information supports health system transformation by reporting the degree to which hospitals meet the need for health care services in their communities while continuing to operate as financially viable organizations.

The report finds that operating margins and total margins are up, while charity care and bad debt charges are down. The results can be attributed to the expansion of health insurance through provisions of the Affordable Care Act (ACA). The ACA increased access to health care coverage by expanded Medicaid eligibility and establishing a statewide insurance exchange. As a result, the proportion of uninsured individuals in Oregon has declined from 14.5% to 5.3% according to the Oregon Health Insurance Survey (OHIS, 2013 and 2015). This resulted in a 40% reduction in charity care and a 38% decline in bad debt between 2014 and 2015. At the same time, hospitals saw a 38% increase in their total margin. The new ACA environment has increased Oregonian's access to vital health services while at the same time improved the financial standing of most hospitals in Oregon.

Oregon Health Authority

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Acute care hospitals operating in Oregon are mandated by statute (ORS 442.400 to 442.463) to submit audited financial reports to the Oregon Health Authority (OHA) within 120 days of the end of their fiscal years. Fiscal year cycles vary among hospitals and many of them include months from the preceding calendar year. All hospitals within a health system have the same fiscal year. In compliance with the statute, OHA collects, analyzes, and publishes hospitals' financials data annually. In fiscal year 2015, 60 acute care hospitals in Oregon reported financials information, of which 58 have tax-exempt not-for-profit status. Shriner's Hospital for Children in Portland reported financials for the first time in 2015 as a result of becoming a Medicare designated Diagnosis-Related Group (DRG) hospital. The highlights provided below are supplemental to the 2015 Hospital Financial Summary, which may be found at :

http://www.oregon.gov/oha/HPA/ANALYTICS/Pages/Hospital-Reporting.aspx

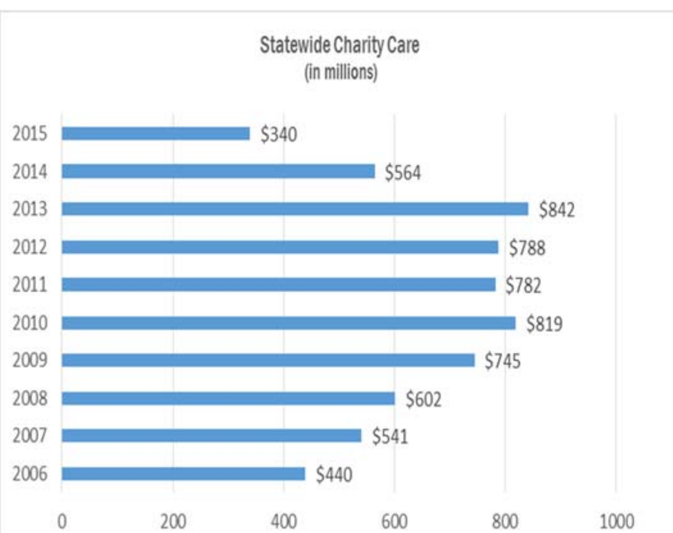
Charity Care

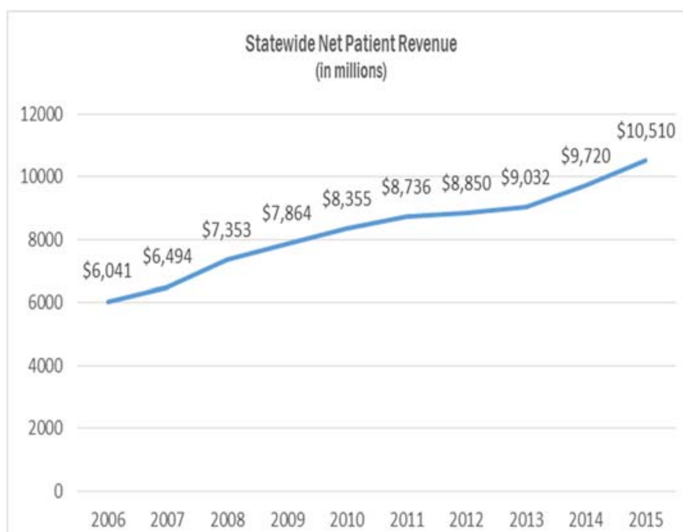
Important changes occurred in 2014 that impacted charity health care services hospitals provide as a benefit to their communities. The Affordable Care Act (ACA) increased access to health care coverage through expanded Medicaid eligibility and the statewide insurance exchange. As a result, the number of uninsured individuals in Oregon has fallen sharply. These changes have significantly reduced the need for financial assistance and charity care as more individuals gain health care coverage and fewer are unable to pay for services. In 2015, Oregon hospitals spent the lowest amount on charity care since 2006. **Charity care declined 39.7% in 2015, following a 33.0% decrease in 2014.** Only 14 of the 60 hospitals had higher charity care amounts in 2015 than in 2014.

Net Patient Service Revenue

Statewide net patient service revenue has been rising since 2006. The increases in 2014 (**7.6%, $688 million**) and 2015 (**8.1%, $790 million**) were more notable in comparison with 1.3% and 2.1% growth in 2012 and 2013. As a group, all Type A, Type B and DRG hospitals had higher net patient revenue in 2015 than in 2014. Types A and B are rural hospitals with 50 or fewer beds. Type A hospitals are greater than 30 miles from another hospital and Type B are within 30 miles of the nearest hospital. DRG hospitals are typically large, urban hospitals that receive payments based on the prospective Diagnostic Related Group (DRG) system. Net patient revenue is computed as:

Net patient revenue= Gross patient service revenue — (Contractual allowances + uncompensated care)





Note: Figures in this report are not adjusted for inflation.

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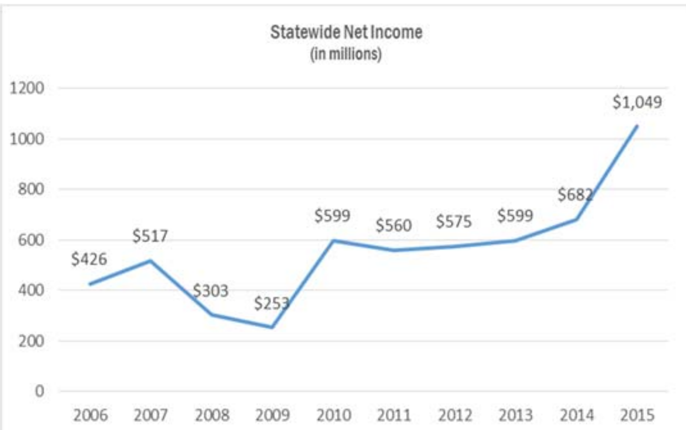
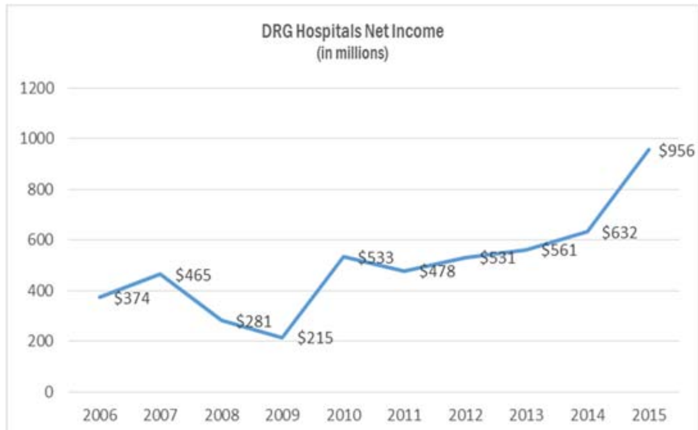
Net Hospital Income

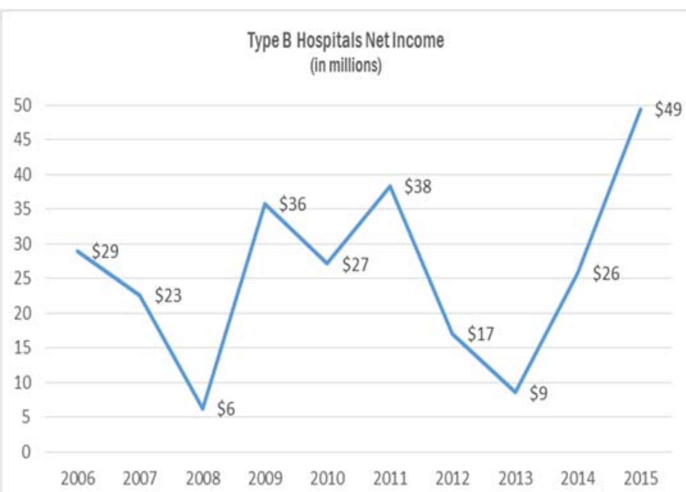
In 2015, net hospital income had the largest increase ($367 million, 53.8%) between any two consecutive years. This compares with only $15 to $83 million year-over-year increases in the previous three years. Although Type A and Type B rural hospitals experienced more fluctuation over the years, all hospital types had higher net income in 2015. The increase from $23 million to $43 million for Type A hospitals was the most significant proportional change. Out of the 60 acute care hospitals in the state, forty-two had more net income in 2015 than in 2014. However, some of these hospitals had negative net income in 2015 though it was an improvement over the 2014 level.

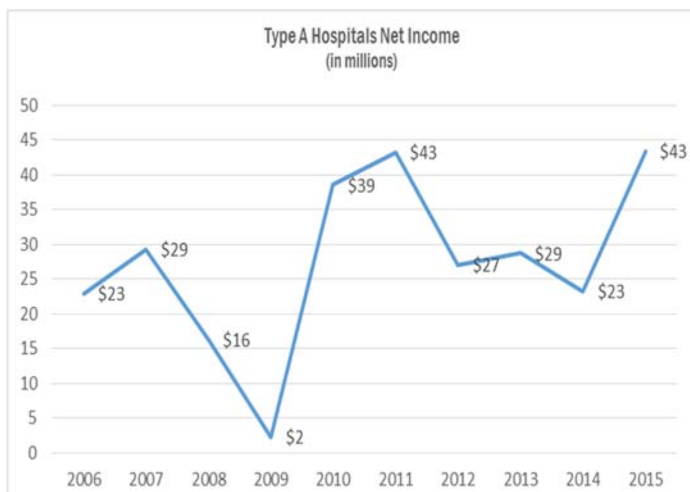
Net income is computed as:

Net income = Operating income + Non-operating revenue or expense









Note: Figures in this report are not adjusted for inflation and those in the narrative were computed before rounding the data to the nearest million.

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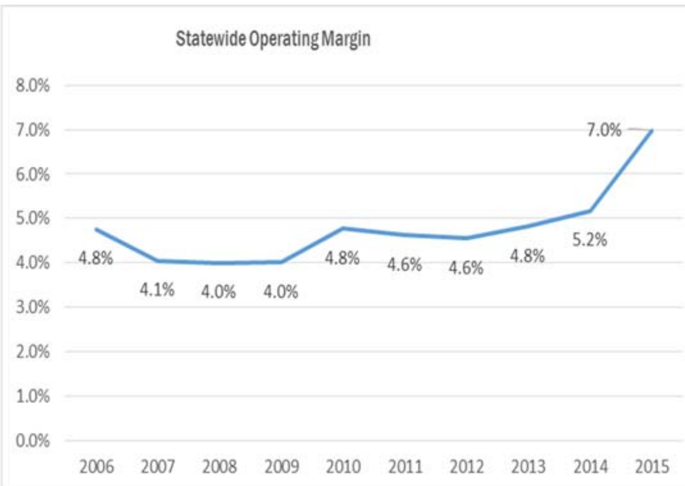
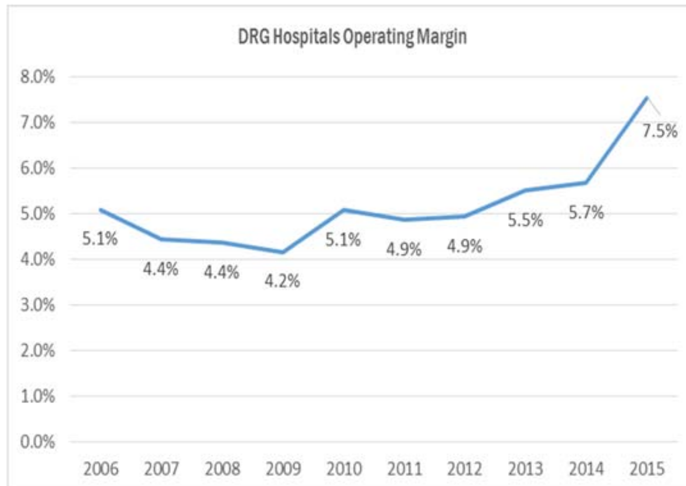
Operating Margin

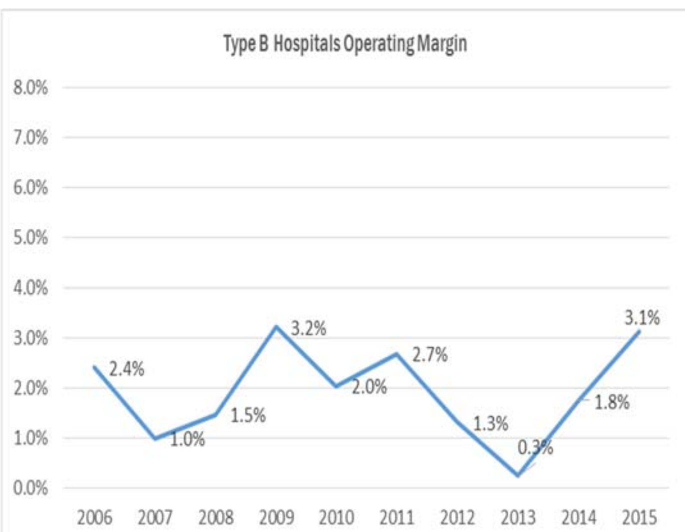
Operating margins of Oregon hospitals also grew annually during the last four years and **2015 had the largest (34.6%) year -over-year operating margin increase since 2010.** Both Type A and Type B hospitals registered larger increases in 2015 relative to their 2014 margins. Their margins are generally lower than that of the DRG hospitals, with Type B hospitals typically having the lowest margins.

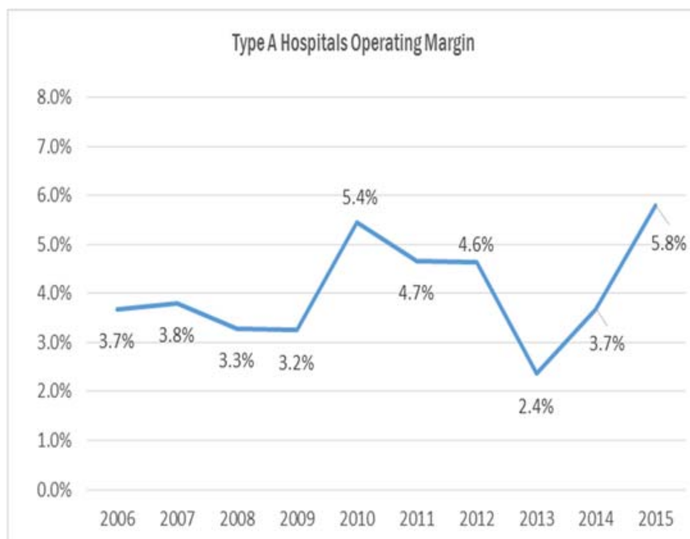
Operating margin is computed as:

Operating margin = Operating income/operating revenue









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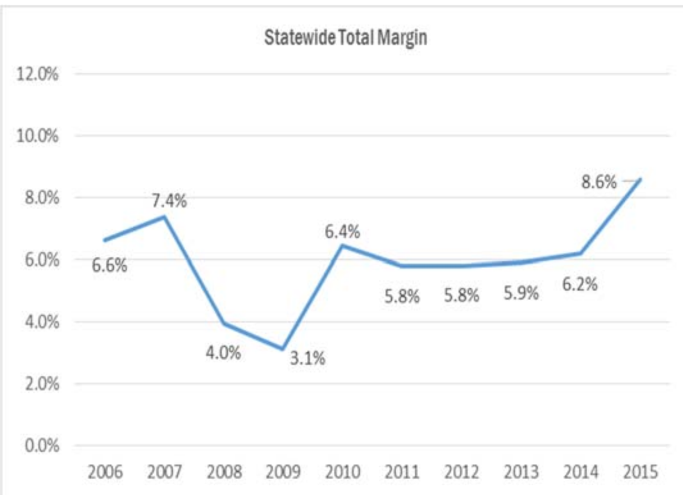
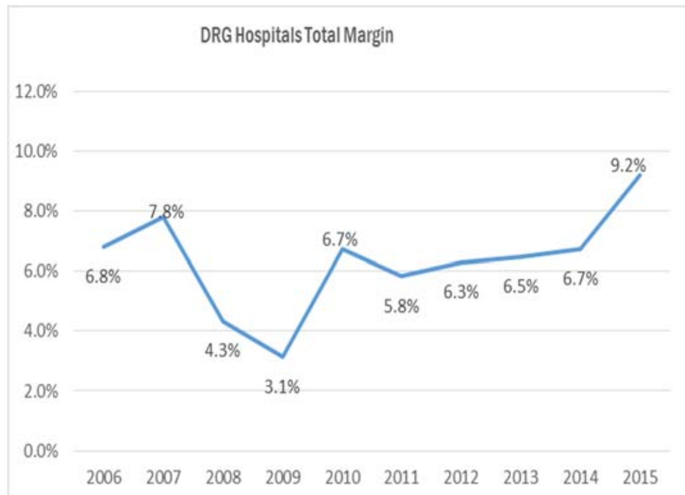
Total Hospital Margin

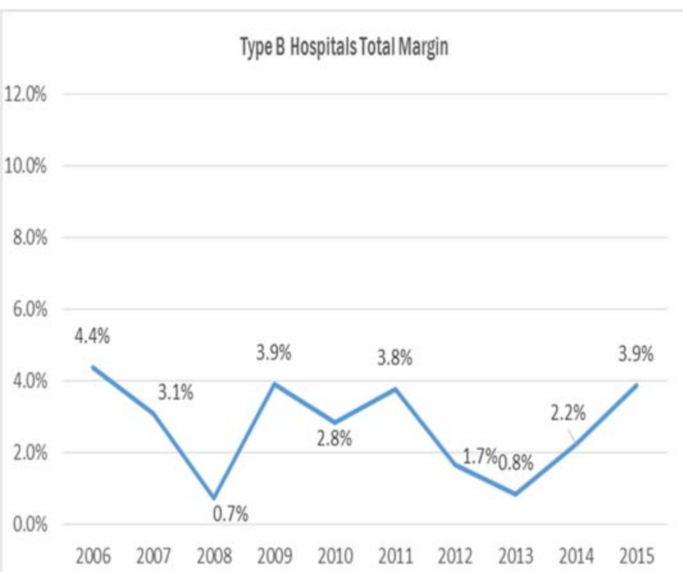
The statewide trend of total margin for the last four years is similar to that of the operating margin and **the 8.6% margin in 2015 is a 38.7% increase over the 2014 margin.** Among hospital types, DRGs had the largest total margin at 9.2%, followed by Type A and Type B hospitals, with 8.1% and 3.9%, respectively. Type B hospitals saw the biggest proportional (77.3%) change when their total margin jumped from 2.2% in 2014 to 3.9% in 2015. Type B hospitals' total margins have been consistently lower than those of other hospital types.

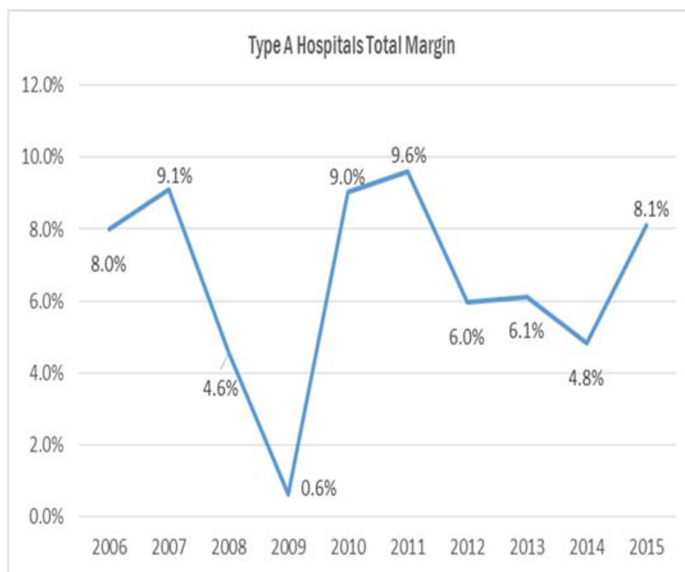
Total margin is computed as:

Total margin = Net income/(operating revenue + non-operating revenue)









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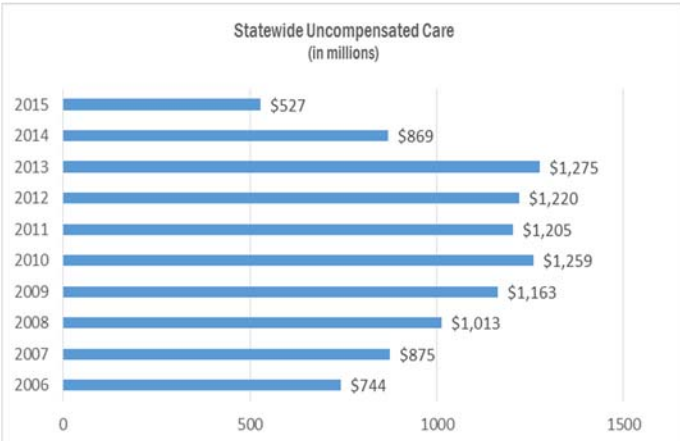
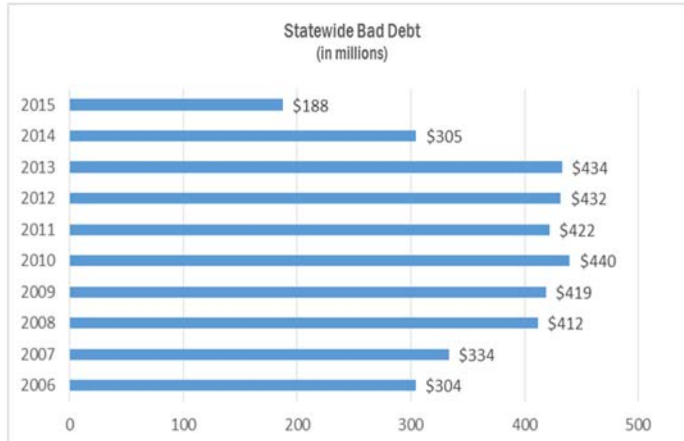
Total Uncompensated Care

Uncompensated care is a combination of charity care and bad debt. More than 65% of uncompensated care in the last four years was charity care and hence the similarity of their trends. **Uncompensated care dropped by $342 million (-39.4%) in 2015 after a $406 million (-31.8%) decrease in 2014.** Bad debt also declined by 38.4% and 29.7% in these two years. These changes are attributed to the implementation of the ACA ,which has significantly reduced the number of individuals without health insurance coverage.





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Challenge and opportunities:

To maintain their tax-exemption status, hospitals are required to provide community benefit service. Charity health care service has been the main component of this service. The fact that uncompensated care in general and charity care in particular are declining while total profit margin is growing in the new ACA environment provides hospitals with opportunities to explore new services and expand existing ones to continue to serve their communities as tax-exempt entities.

Data source: FR-3— hospital financial reporting form submitted by hospitals at the end of fiscal year.

OHA's Office of Health Analytics collects and analyzes data to inform policy development, program implementation, and health system evaluation. The Office of Health Analytics supports OHA's efforts to further the triple aim goals of improving health outcomes, improving health care quality, and reducing costs. For more information about OHA's hospital financial reporting program, visit:

http://www.oregon.gov/oha/HPA/ANALYTICS/Pages/Hospital-Reporting.aspx

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