

# Oregon Acute Care Hospitals

## Annual Financials Reporting Highlights

### 2016

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Oregon Health Authority  
Division of Health Policy & Analytics  
Office of Health Analytics



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## ABOUT THIS REPORT

Acute care hospitals operating in Oregon are mandated by statute (ORS 442.400 through 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 may 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' financial data annually. In fiscal year 2016, 60 acute care hospitals in Oregon reported financial information, of which 58 have tax-exempt not-for-profit status. Shriners' 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.

Data in this report are presented as aggregate totals for all hospitals and by hospital type. Data are not adjusted for inflation and those in the narrative were rounded to the nearest million. Data files contain raw values.

The Oregon Health Authority provides supplemental data files and additional information at:  
<http://www.oregon.gov/oha/HPA/ANALYTICS/Pages/Hospital-Reporting.aspx>

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# HOSPITAL TYPES

In this report, hospital data are presented in four categories: All hospitals, DRG hospitals, Type A hospitals and Type B hospitals. Definitions, details and a map of their respective locations are displayed below.



All hospitals: There are 60 acute care inpatient hospitals in Oregon, excluding federal hospitals and long term care and rehabilitation facilities. Hospitals are grouped into three categories, listed below.



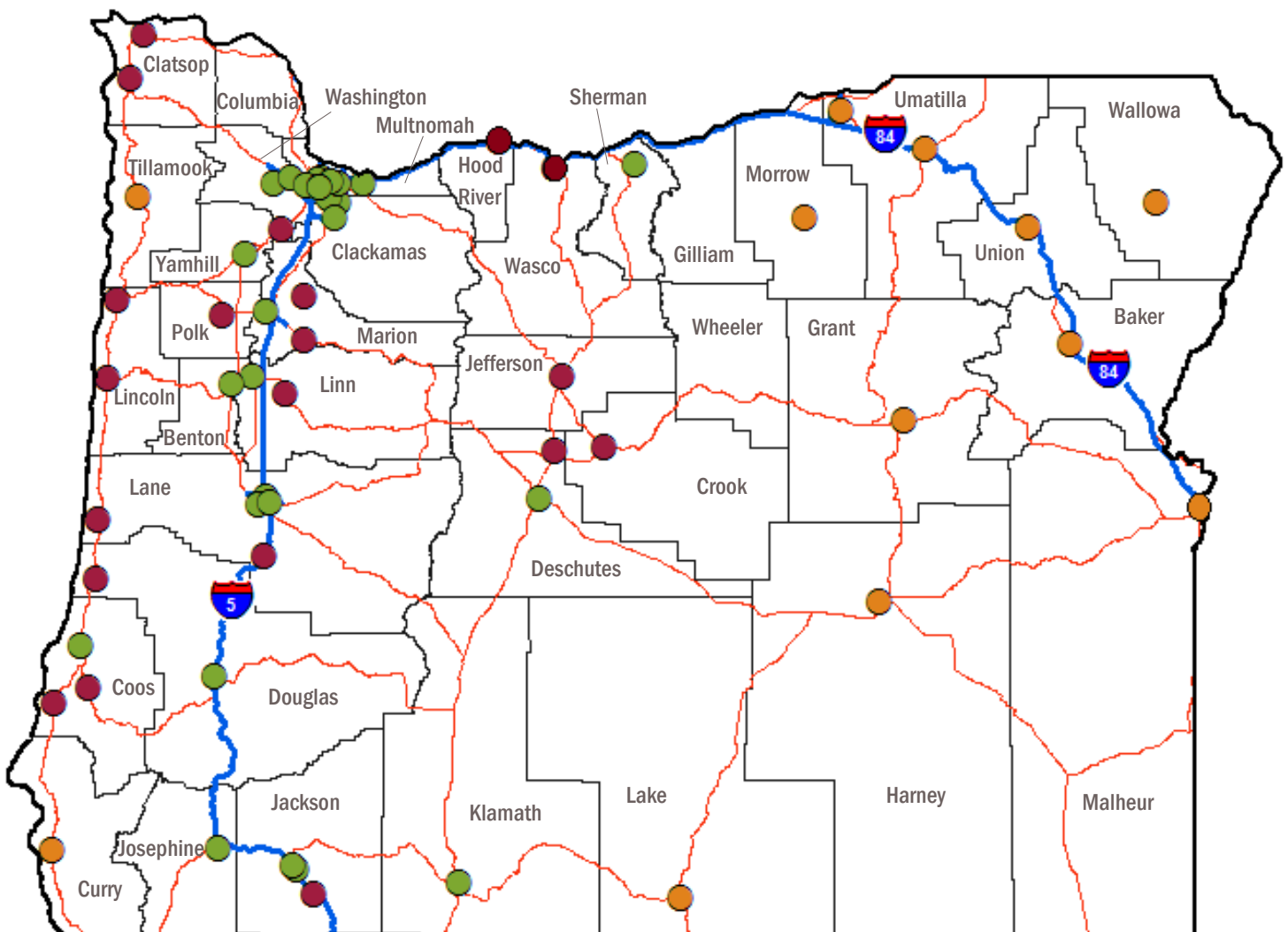
There are 28 **DRG hospitals** in Oregon. These are typically large, urban hospitals that receive payments based on the prospective Diagnostic Related Group (DRG) system.



There are 12 **Type A hospitals** in Oregon. These hospitals are small (fewer than 50 beds) and are located more than 30 miles from another hospital.



There are 20 **Type B hospitals** in Oregon. These hospitals are small (fewer than 50 beds) and are located within 30 miles of another hospital.



Sources: Hospital graphics by Flaticon ([www.flaticon.com](http://www.flaticon.com)). State graphic by Alec Dhuse ([www.thenounproject.com](http://www.thenounproject.com))

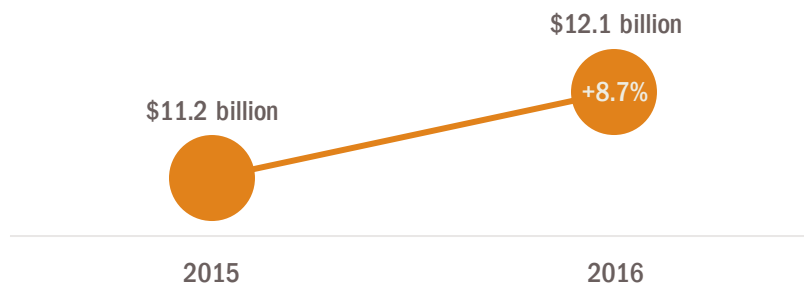
# EXECUTIVE SUMMARY

Each year the Oregon Health Authority collects financial data from acute care hospitals as authorized by statutes ORS 442.400 through 442.463. This report provides an overview of annual audited financial data reported by the sixty general acute care hospitals in Oregon.

Statewide hospital operating expense grew at least 8.0% annually in each of the last three years, reaching a three-year high with an increase of 8.7% in 2016. At the same time, statewide net patient revenue increased 7.6%, 8.2% and 7.0% year over year from 2014 through 2016. Consequently, operating and total margins have fallen as operating expenses grew faster than patient revenue. Statewide operating margin and total margin were lower by 2.4 percentage points and 3.5 percentage points respectively. Net hospital income decreased nearly \$402 million, just over 38%.

Statewide uncompensated care remained low compared with pre-Affordable Care Act years. Total uncompensated care was \$526 million in 2016 compared with \$527 million in 2015. Total uncompensated care for each of these years is less than half of the \$1.28 billion in uncompensated care reported in 2013.

## 1 Hospital operating expense increased 8.7% in 2016 compared with the previous year.



Statewide hospital operating expense increased from \$11.2 billion in 2015 to \$12.1 billion in 2016.

## 2 Net patient revenue increased 7% in 2016 compared with the previous year.



Statewide net patient revenue increased from \$10.5 billion in 2015, to \$11.2 billion in 2016.

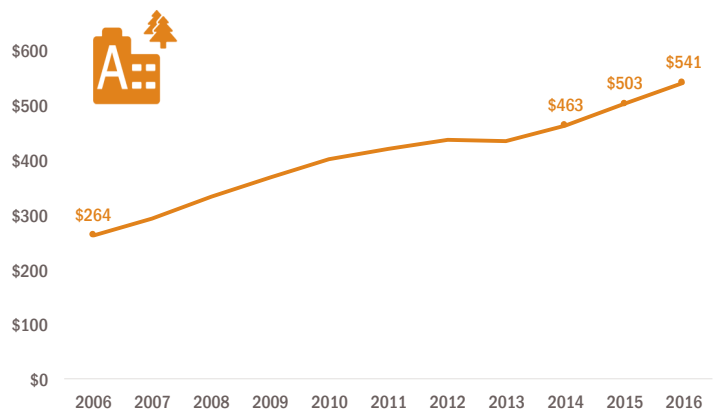
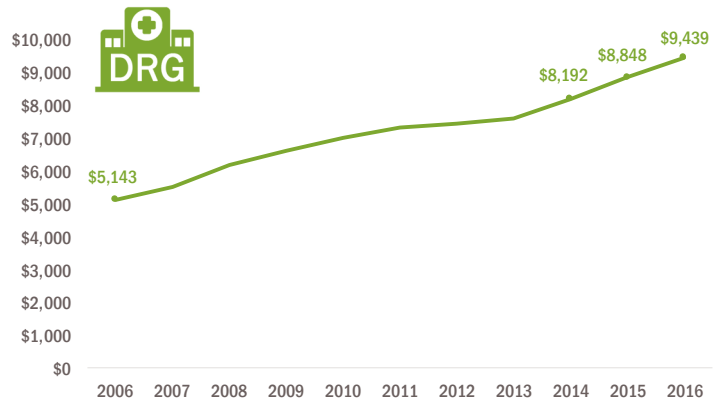
# NET PATIENT REVENUE

Total net patient revenue has been rising since 2006. The rate of growth in net patient revenue following the implementation of the Affordable Care Act was greater in 2014 (7.6%, \$688 million), 2015 (8.2%, \$793 million) and 2016 (7.0%, \$731 million) than any other year since 2008. As a group, all hospital types had increased net patient revenue in 2016.

Total net patient revenue in millions of dollars:

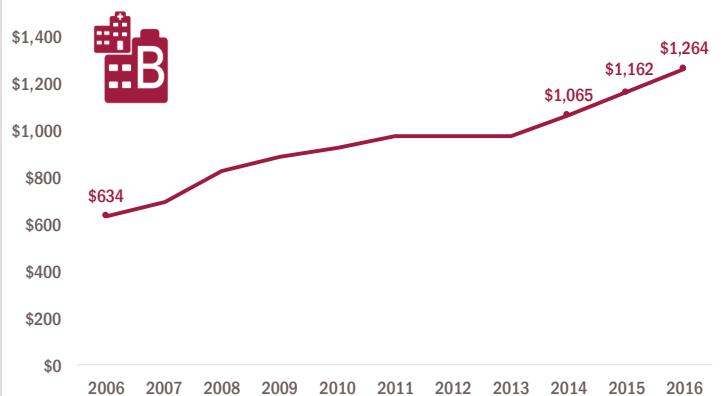


Total net patient revenue in millions of dollars by hospital type:



**Net patient revenue** is the amount a hospital expects to receive for services after accounting for contractual allowances to third party payers and for uncompensated care. This includes payments made for providing health care, such as surgeries, emergency services, lab tests, imaging, etc. Net patient revenue is calculated by taking the total amount of money billed for patient care (gross patient revenue) and subtracting uncompensated care (charity care and bad debt) and contractual amounts.

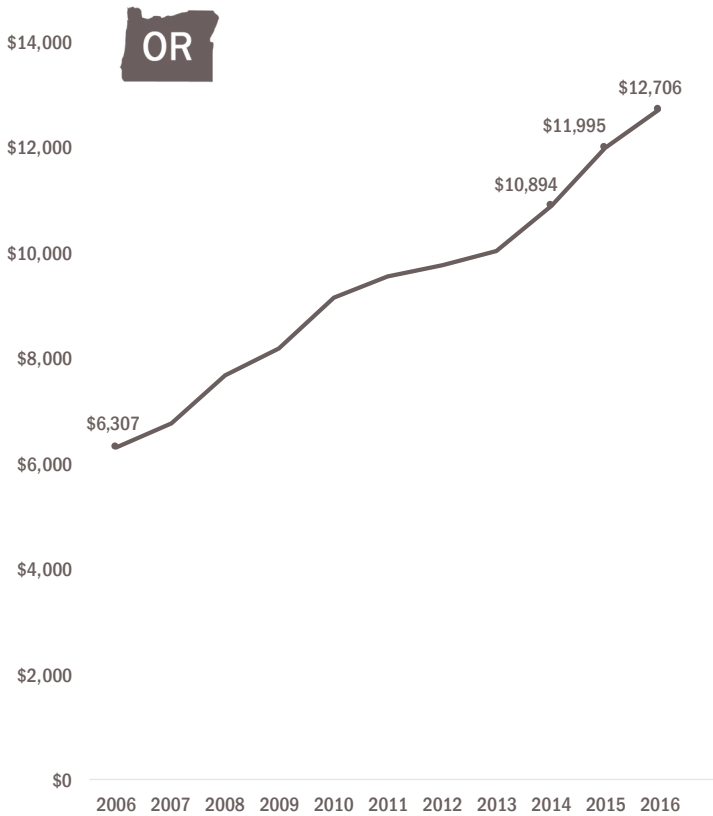
$$\text{Net Patient Revenue} = \text{Gross Patient Revenue} - (\text{Contractual Allowances} + \text{Charity Care} + \text{Bad Debt})$$



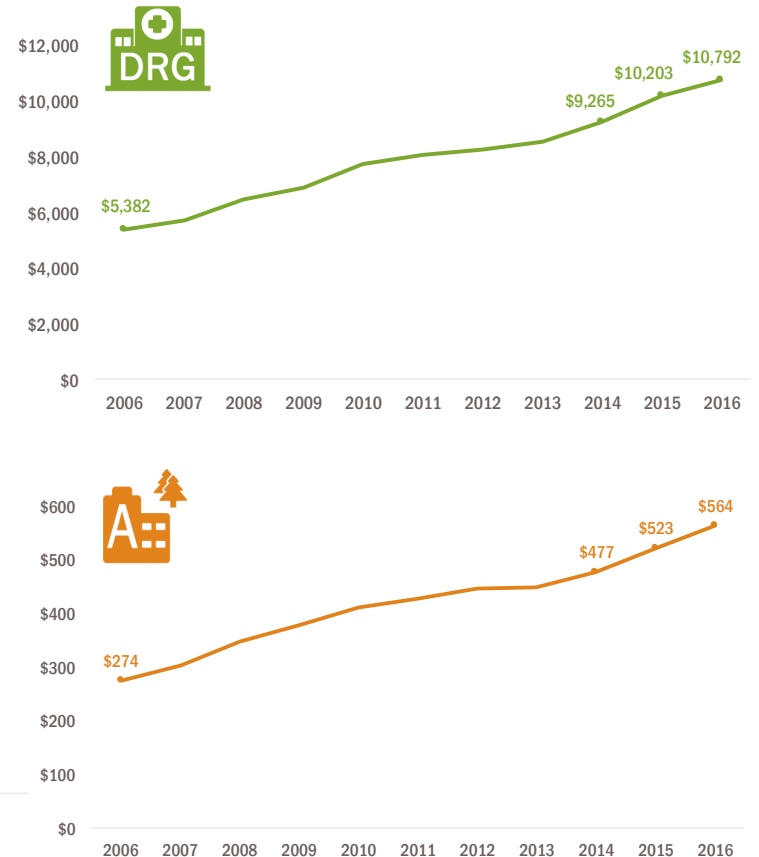
# OPERATING REVENUE

Total operating revenue increased by 5.9% in 2016. This rate of growth was lower than the preceding two years. All hospital types experienced slower operating revenue growth in 2016 compared with the previous year, with the growth rate among DRG hospitals slowing the most, from 10.1% in 2015 to 5.8% in 2016. Operating expense grew more quickly than operating revenue in 2016 (an 8.7% increase compared with a 5.9% increase), resulting in decreases to operating income, operating margin, and total margin in 2016 compared with 2015.

Total operating revenue in millions of dollars:

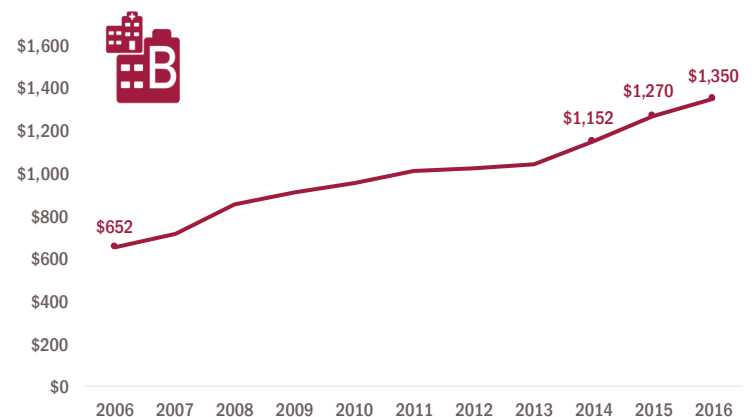


Total operating revenue in millions of dollars by hospital type:



**Operating revenue** is the sum of revenue from patient services and revenue from non-patient services (such as cafeteria sales, gift shop sales, parking fees and record fees). Operating revenue represents all income received from daily operations of the hospital, but does not include revenue from non-operational sources (such as tax subsidies or investment income).

$$\text{Operating Revenue} = \text{Net Patient Revenue} + \text{Other Operating Revenue}$$



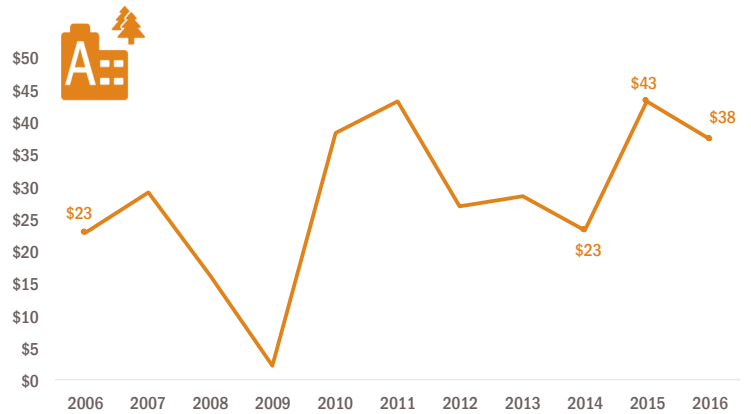
# NET INCOME

The steady growth of statewide hospital net income from 2012 through 2015 saw a sharp decline (\$402 million, 38.3%) in 2016 as the operating expense grew faster than the operating revenue. This compares with the largest (\$367 million, 53.9%) year over year increase in 2015. All hospital types had lower net income in 2016. DRG and Type B hospitals experienced the sharpest relative declines (of 39.4% and 39.5% respectively). The decline was not uniform among hospitals, as 20 of Oregon's 60 acute care hospitals had higher net income in 2016 than in 2015.

Total net income in millions of dollars:



Total net income in millions of dollars by hospital type:



**Net income** is hospital income from all sources less total operating expenses. This includes gains or losses from non-operational sources such as investments. Net income represents a hospital's profit.

$$\text{Net Hospital Income} = (\text{operating revenue} - \text{operating expense}) + \text{Non-operating Revenue or Expense}$$

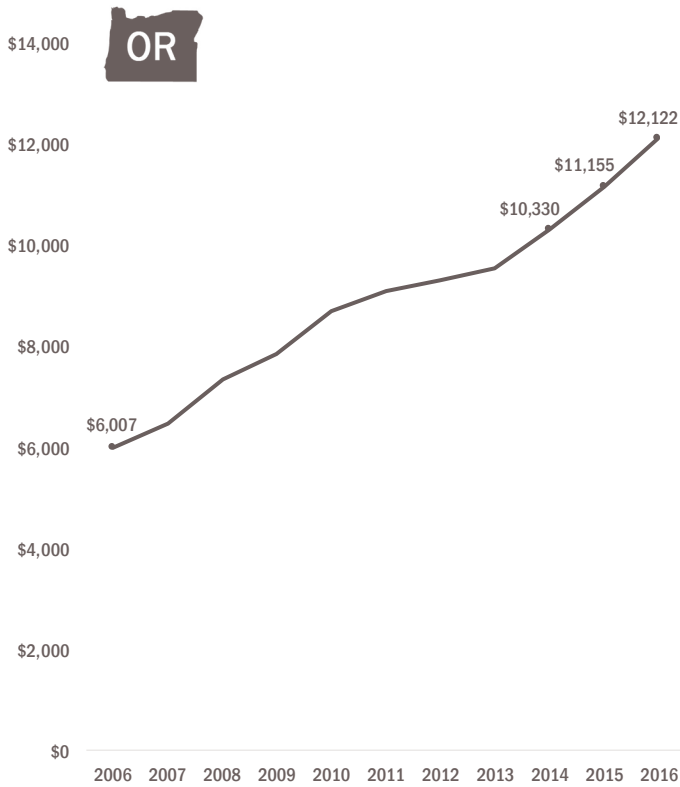




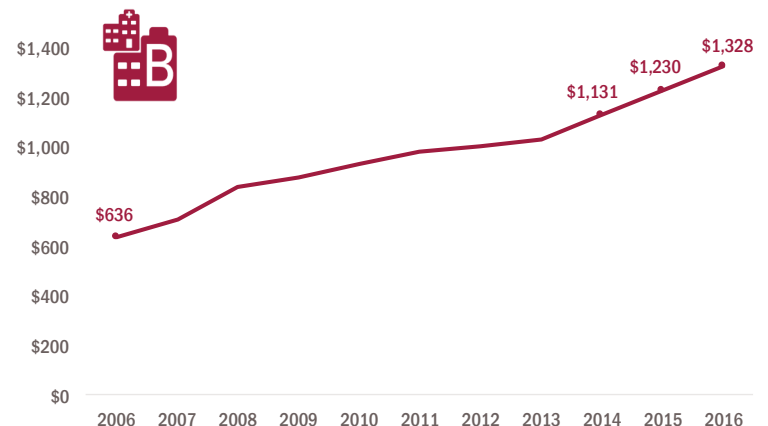
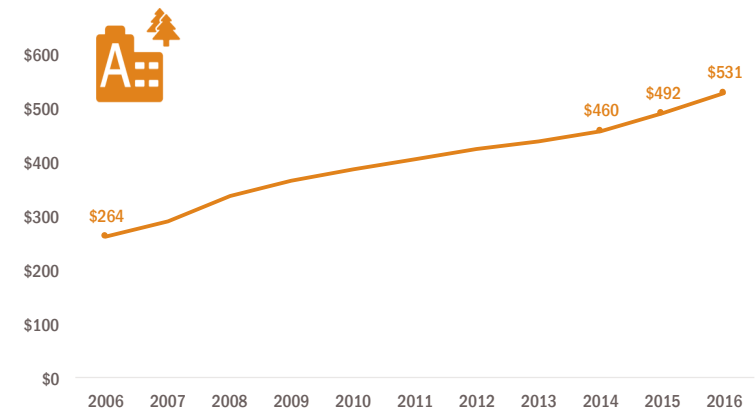
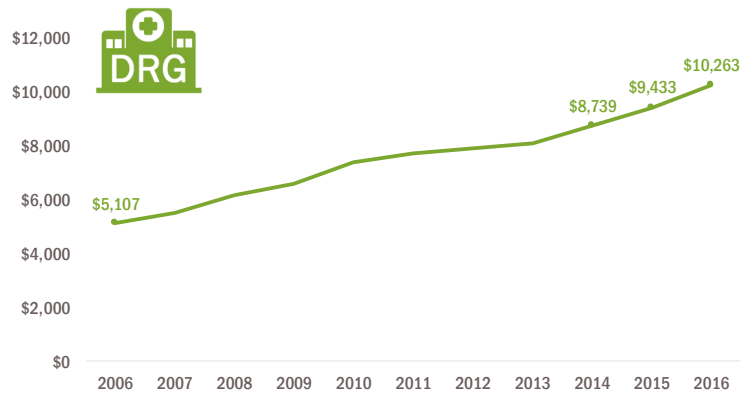
# OPERATING EXPENSE

Total operating expense has grown consistently since 2006 and reached \$12.1 billion in 2016. Year over year increases accelerated after implementation of the Affordable Care Act in 2014 with a minimum of 8.0% growth in each of the last three years. 2016 represents the largest statewide increase in operating expense in both real dollars (\$966.3 million) and relative growth (8.7%). DRG and Type A hospitals saw larger relative increases in operating expense (of 8.8% and 7.8%, respectively) compared with the previous year's growth, while Type B hospital's growth slowed slightly from 8.7% in 2015 to 8.0% in 2016. Operating expense growth has outpaced patient revenue growth in two of the past three years.

Total operating expense in millions of dollars:



Total operating expense in millions of dollars by hospital type:

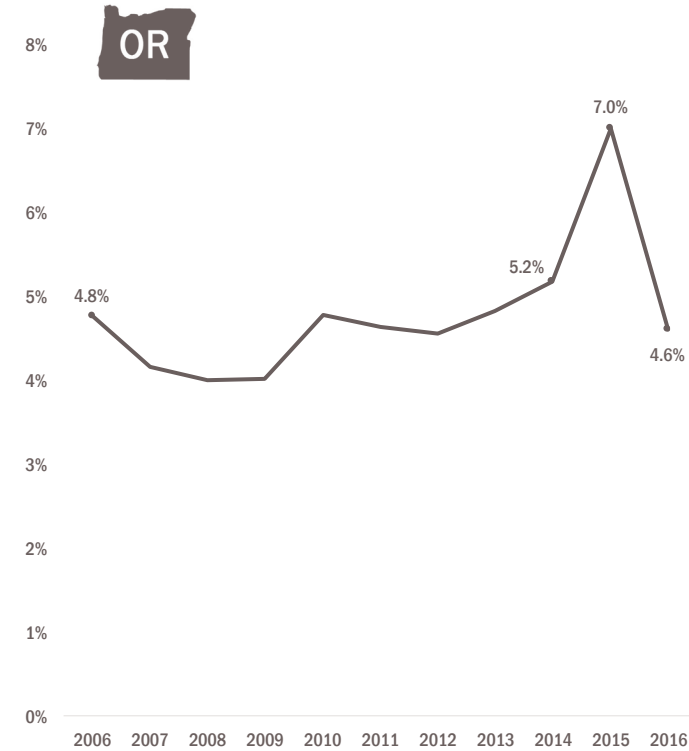


**Operating expense** is the sum of all expenses incurred for the purpose of operating a hospital. These include salary and benefit expenses, medical and office supplies, facility and depreciation costs. Expenses are accounted on an accrual basis, meaning they are recorded as the expense occurs, not when the expense is actually paid.

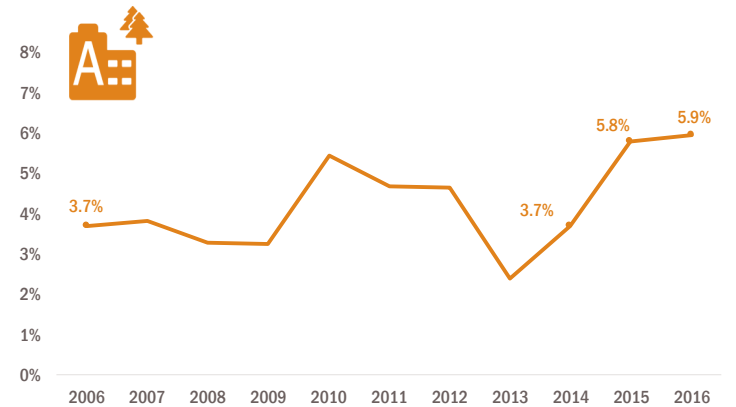
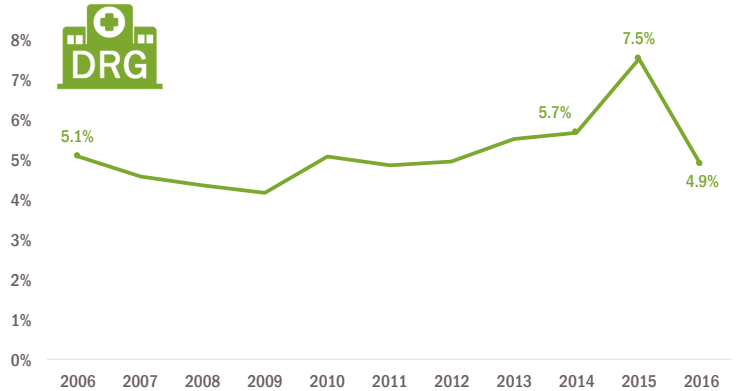
# OPERATING MARGIN

Operating margin fell 2.4 percentage points in 2016. This comes after two years of strong growth. The drop in operating margin can be attributed to the faster growth of operating expenses compared with patient revenue. The 4.6% operating margin is in line with most pre-Affordable Care Act years, but is lower than profits reported in early ACA years. Data presented below are aggregated operating margins, overall and by hospital type.

Total operating margin:

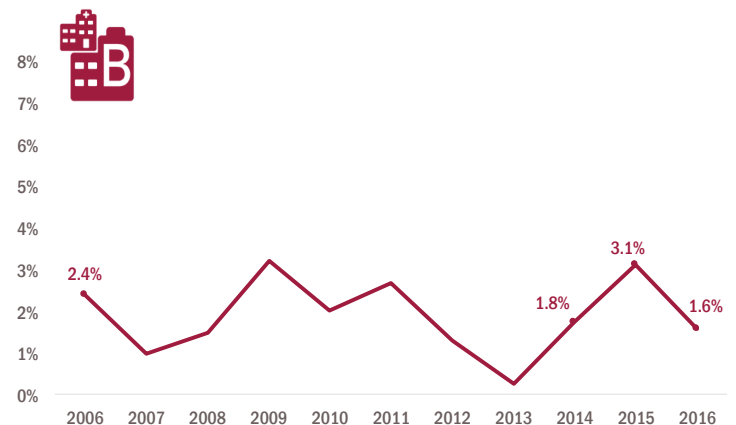


Total operating margin by hospital type:



**Operating margin** is calculated as a ratio of operating revenue minus operating expenses divided by operating revenue. Operating revenue includes net patient revenue as well as revenue from other non-patient hospital services, such as cafeteria sales. Operating expenses are the expenses associated with running a hospital, such as supplies, salaries, rentals, professional fees, and insurance. A positive operating margin means that the hospital is making a profit, while a negative margin means the hospital is operating at a loss.

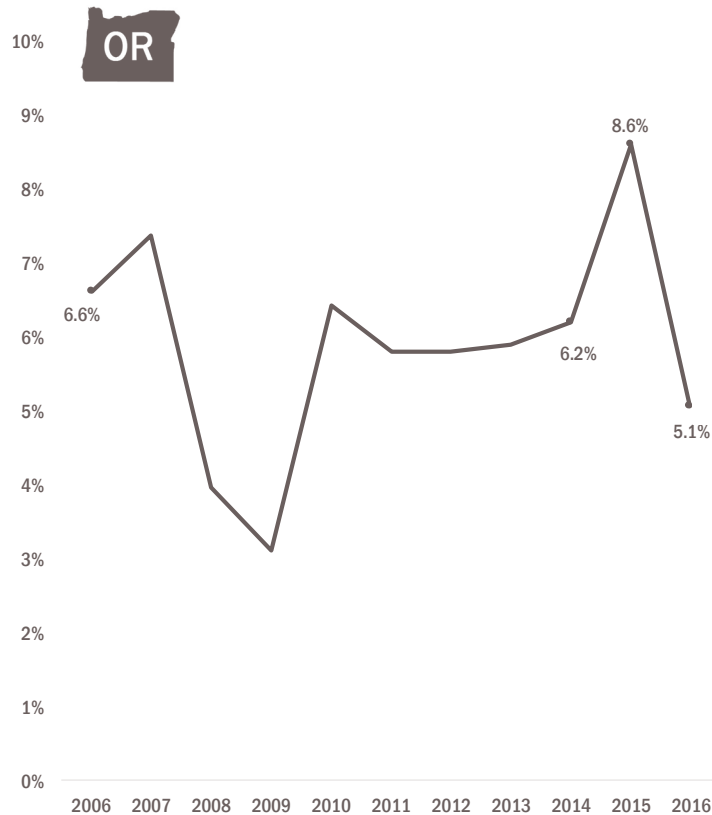
$$\text{Operating Margin} = \frac{\text{Operating Income}}{\text{Operating Revenue}}$$



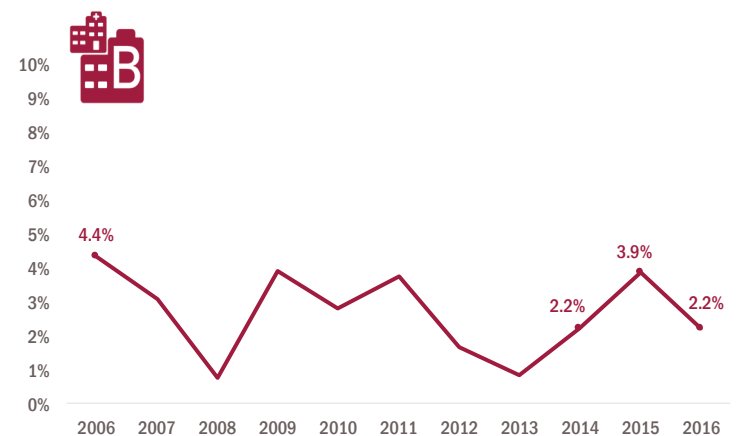
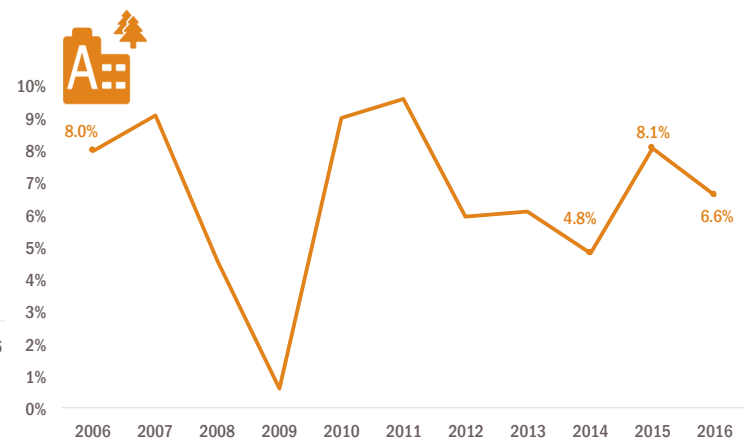
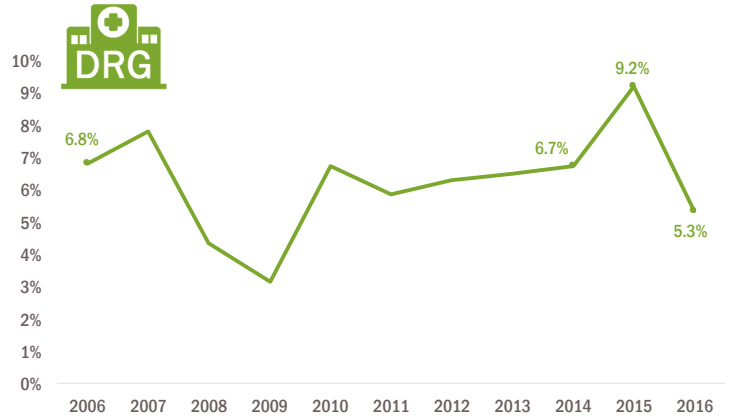
# TOTAL MARGIN

Statewide total margin fell 3.5 percentage points from its record high in 2015, to 5.1%, slightly lower than the average total margin in pre-Affordable Care Act years. DRG hospitals had the sharpest decline, dropping 3.9 percentage points from 2015. Declines in total margin can be attributed to significant growth in operating expenses, which exceeded the growth in revenue in 2016. Data presented below are aggregated total margins, overall and by hospital type.

Statewide total hospital margin:



Total hospital margin by hospital type:

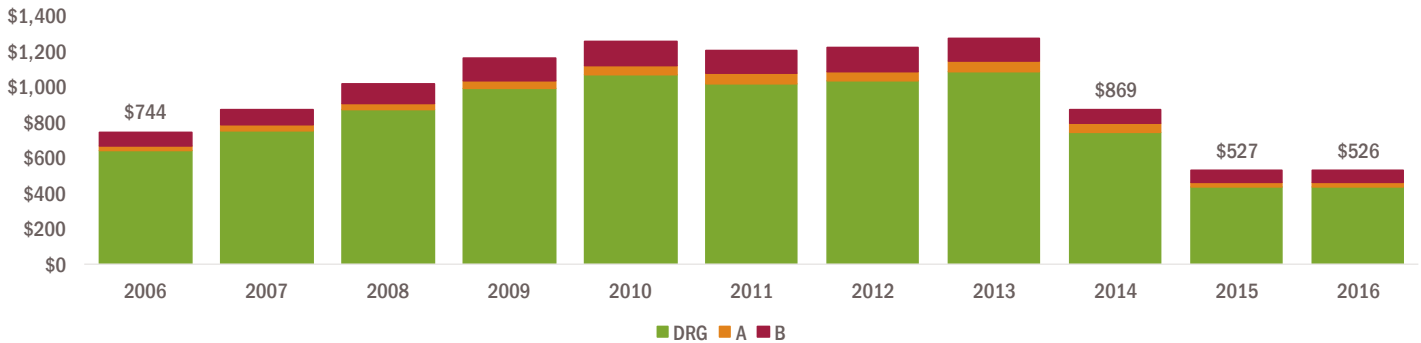


**Total hospital margin** compares revenue and expenses from all sources, including investments, tax subsidies, and operations. It is calculated by dividing all sources of income by all expenses. The total margin includes revenue from sources not related to patient care or hospital operation. Because of this, a hospital with a negative operating margin could still have a positive total margin and be profitable overall despite its hospital services operating at a loss.

$$\text{Total Margin} = \frac{\text{Net Income}}{\text{Operating Revenue} + \text{Non-Operating Revenue}}$$

# UNCOMPENSATED CARE

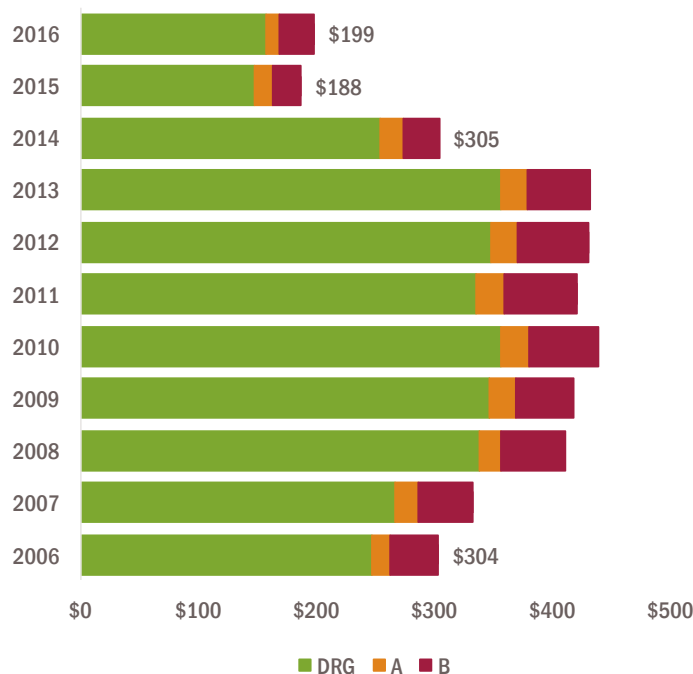
Uncompensated care is a combination of charity care and bad debt. Almost 65% of uncompensated care in the last five years was charity care, hence the similarity of their trends. Uncompensated care dropped sharply following the implementation of the Affordable Care Act decreasing from \$1.28 billion in 2013 to \$869 million in 2014 and \$527 million in 2015 – a total decrease of \$748 million (or 58.6%) over a two-year period. This new low seems to have stabilized in 2016, as uncompensated care remains relatively flat compared with 2015.



## Bad Debt

Total bad debt increased by 5.9% in 2016 following sharp declines in 2014 and 2015 (of 29.7% and 38.4% respectively). Bad debt was still 34.8% lower in 2016 than in 2014 (\$199 million vs. \$305 million).

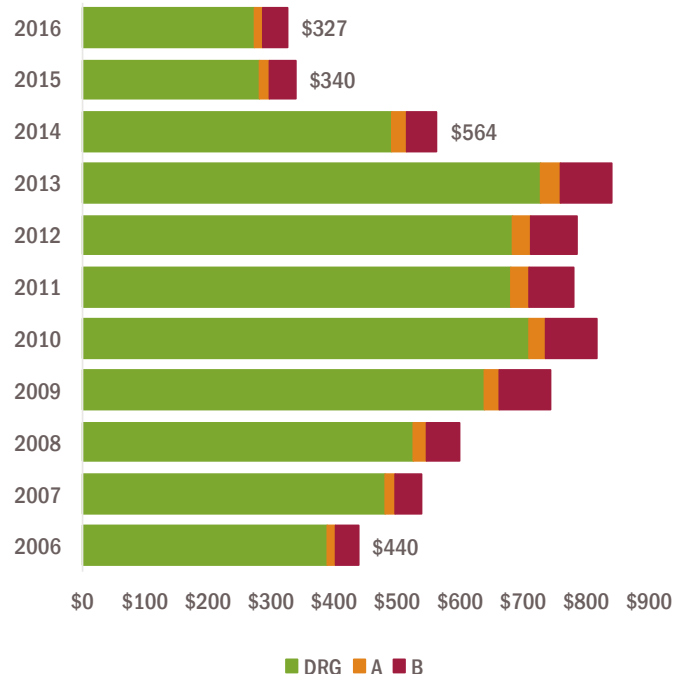
Statewide bad debt in millions of dollars:



## Charity Care

As a result of Medicaid eligibility expansion and insurance exchange under the Affordable Care Act, the number of uninsured individuals has fallen sharply. Consequently, the amount hospitals spent on charity care decreased by 33.0%, 39.8%, and 3.7% respectively in 2014, 2015, and 2016.

Statewide charity care in millions of dollars:



## DATA PROPERTY COMPARISON

The Oregon Health Authority collects two separate but complementary hospital financial datasets: Audited Financials and Databank. This report uses Audited Financials. These databases contain some of the same data elements, but key differences distinguish them. The following table highlights these differences.

Data Property	Audited Financial	Databank
Report created	Audited Financial Highlights (this report)	Oregon Acute Care Hospitals: Finance and Utilization Trends
Unit of analysis	Individual hospital	Individual hospital
Unit of time for data collection	Hospital fiscal year: Oregon hospitals are each on one of four fiscal years	Calendar month
Data source	Produced by third party accounting and self-reported on FR-3 form	Self-reported on an accrual basis by hospital via electronic submissions
Data submission schedule	Annually: 120 days after close of hospital fiscal year	Quarterly: Data due to OHA 60 days after the close of each calendar quarter due date
Data set availability	The previous fiscal year is available in June	Quarterly data are available approximately three months after the close of each quarter; full year data are available in April
Hospital level data	Yes: Provided as a summary of audited financial statements on form FR-3	Yes
Kaiser data*	Reports a health system wide audited financial (no hospital level metrics)	Reports only utilization numbers (no financial data)
Net Property, Plant and Equipment	Yes	No
DATA ELEMENTS COLLECTED		
Payer information	Only contractual amounts for Medicare, Medicaid and Other are collected on form FR-3	Gross charges, contractual amounts, accounts receivable and inpatient utilization for Medicare, Medicaid, Commercial and Self-pay payers
Expense information	Total operating expense, nonoperational losses	Facility payroll, physician payroll, community benefit, supply, depreciation, interest, bad debt and other expenses available
Utilization information	No	Inpatient, swing bed, distinct part unit, outpatient, home health, emergency department and clinic visits; inpatient discharges available by payer

\* Kaiser is currently exempted in statute from certain financial reporting requirements.