

October 3, 2022

The Honorable Karen Fann
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007

The Honorable Russell Bowers
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

The Honorable David Gowan
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007

The Honorable Regina Cobb
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

Richard Stavneak, Director
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Matthew Gress, Director
Governor's Office of Strategic Planning and Budgeting
1700 W. Washington
Phoenix, AZ 85007

Dear President Fann, Speaker Bowers, Senator Gowan, Representative Cobb, Mr. Stavneak, and Mr. Gress:

Pursuant to A.R.S. § 36-2903.08, please find the enclosed AHCCCS Report on Uncompensated Care and Hospital Profitability.

Please feel free to contact Shelli Silver, Deputy Director, at shelli.silver@azahcccs.gov or (602) 417-4647 if you have any questions about this report.

Sincerely,

Jami Snyder
Director

cc: Art Harding, Director of Legislative Affairs, Governor's Office



Report on Uncompensated Hospital Costs and Hospital Profitability

October 2022

Director, Jami Snyder

EXECUTIVE SUMMARY

Hospital profitability over the last five years, from Hospital Fiscal Year (HFY) 2017 through HFY 2021, has experienced significant and consistent growth. From net operating profit of \$919 million in HFY 2017, and exceeding \$1.1 billion in HFYs 2018 and 2019, HFY 2020 exceeded expectations with the largest year to year increase since 2013, with a net operating profit of \$1.5 billion. The increase in HFY 2020 net operating profit is due to funding from the federal COVID-19 provider relief fund and the directed payment program established in calendar year 2020. HFY 2021 continues this upward trend with a net operating profit of \$1.7 billion. It is important to note that there are several factors that influence hospital profitability and uncompensated care, including long-term and short-term business decisions made by hospitals, occupancy rates, the economy, federal and state policies, and changes in the health care industry as a whole.

Operating profitability continues to vary considerably by hospital type. Both net operating margin and total margins for short term specialty hospitals decreased in HFY 2021 while net operating margins for critical access hospitals increased from 4.3% in HFY 2020 to 10.6% in HFY 2021. Rehabilitation hospitals saw an increase in net operating margin, from 9.8% in HFY 2020 to 14.5% in HFY 2021. Long term care hospitals saw the largest net operating margins decrease, from 8.5% in HFY 2020 to 3.1% in HFY 2021.

In HFY 2021, hospital financial reports reflect two significant circumstances that have a direct impact on their financial status. The COVID-19 Public Health Emergency emerged in March 2020 and has continued through the publication date of this report. A majority of the hospitals report on a calendar year, resulting in nine months of COVID-19 impacts to their financial position in HFY 2020 and a full twelve months of COVID-19 impact in HFY 2021. In addition, the Arizona Legislature created a new hospital assessment in March 2020, to be deposited into the Health Care Investment Fund (HCIF) established through the same legislation, which draws down federal matching funds annually to provide directed payments from AHCCCS to hospitals beginning in Federal Fiscal Year (FFY) 2021 (October 1, 2020 - September 30, 2021). The FFY 2021 net payment totaled approximately \$950 million. As a result, hospitals that report on a calendar year reflected one quarter of this payment in the financials in HFY 2020 and the full impact of this payment is seen in HFY 2021.

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BACKGROUND

A. R. S. § 36-2903.08 mandates that AHCCCS provide a report on hospital finances, specifically:

AHCCCS uncompensated care; hospital assessment; reports

A. On or before October 1, 2014, and annually thereafter, the Arizona Health Care Cost Containment System administration shall report to the speaker of the house of representatives, the president of the senate, the chairpersons of the appropriations committees of the house of representatives and the senate and the directors of the joint legislative budget committee and governor's office of strategic planning and budgeting on the change in uncompensated hospital costs experienced by hospitals in this state and hospital profitability during the previous fiscal year.

	Hospital Profitability and Uncompensated Care HFY 2017-2021 (\$ in Millions)					
	2017	2018	2019	2020*	2021	2020-2021 Change
Total Uncompensated Care	\$410.1	\$419.7	\$441.8	\$460.0	\$482.8	\$22.8
Average Uncompensated Care Costs	\$3.9	\$4.3	\$4.2	\$4.2	\$4.4	\$0.2
Uncompensated Care Costs as a % of Total Expenses	2.5%	2.5%	2.5%	2.5%	2.2%	(9.0)%
Total Net Operating Profitability	\$919.0	\$1,124.4	\$1,108.0	\$1,501.2	\$1,687.1	\$185.9
Average Operating Profitability	\$8.8	\$11.5	\$10.8	\$13.6	\$15.3	\$1.7
Average Operating Margin	5.3%	6.3%	5.8%	7.4%	7.3%	(2.4)%
Hospitals with a Positive Operating Margin	71.2%	73.5%	69.9%	73.6%	77.3%	4.9%
Average Total Income Margin	6.8%	7.0%	6.9%	9.4%	10.1%	7.7%
Average Occupancy Rate	60.2%	65.5%	63.2%	61.9%	67.1%	8.4%
* Curahealth Tucson, Curahealth Northwest were added to 2020 data thus will not match prior year report.						

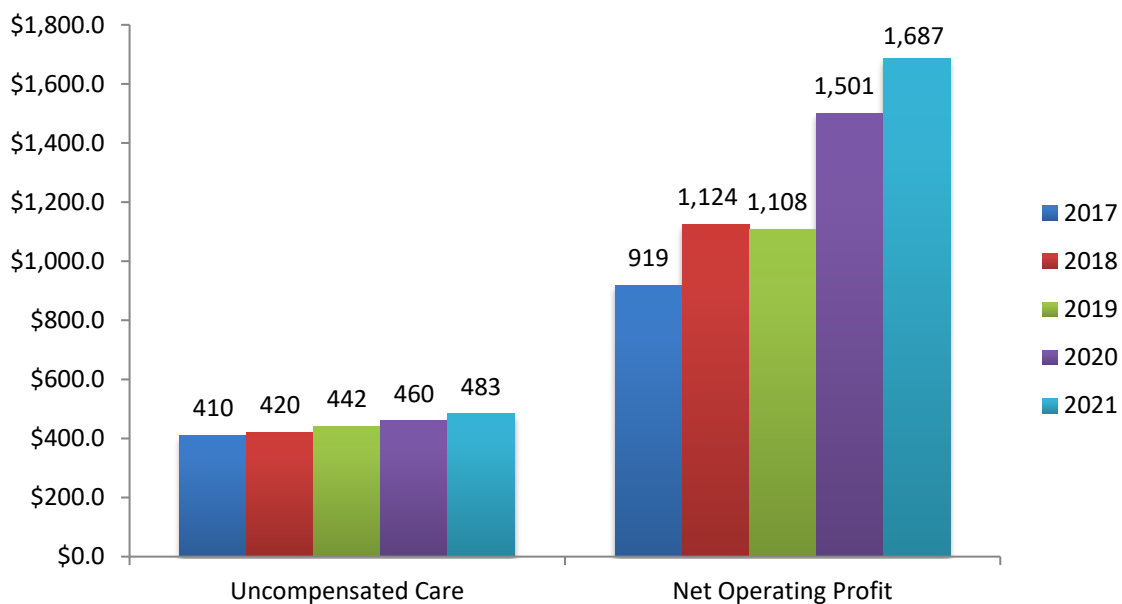
Hospital-reported data shows that total uncompensated care grew by \$22.8 million from HFY 2020 to HFY 2021. HFY 2021 total uncompensated care was \$482.8 million, while HFY 2021 average uncompensated care costs were \$4.4 million. Uncompensated care as a percentage of total expenses dropped from 2.5% during HFY 2020 to 2.2% in HFY 2021.

In HFY 2021 total net hospital profitability was above \$1 billion for the fourth straight year and exceeded \$1.5 billion for the second time. During that time frame, average operating profitability

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and average total income margin increased as well. Total net operating profits increased by \$205.4 million from HFY 2017 to HFY 2018, a 22% increase. After remaining at approximately \$1.1 billion for HFY 2019, total net operating profits increased 35% to \$1.5 billion in HFY 2020, the largest year-to-year increase since 2013. This growth continued into HFY 2021, with a 12.4% increase in net operating profits to approximately \$1.7 billion.

Hospital Uncompensated Care and Net Operating Profits , HFY 2017 - 2021 (\$ in Millions)



Hospital finances have improved in recent years due to a number of AHCCCS changes:

- The implementation of Differential Adjusted Payments (DAPs), effective October 1, 2016, increasing rates for acute care hospital providers who met established quality performance criteria. The DAP criteria was expanded to include all hospitals on October 1, 2017. Effective October 1, 2018, hospitals had the opportunity to receive a 3.0% DAP compared to the previous level of 0.5%.
- Effective October 1, 2019, all hospitals excluding critical access hospitals could qualify for a DAP between 2.5%-4.5%. Critical access hospitals were eligible for a minimum DAP of 8.5% and up to 28.5% for hospitals meeting geographic criteria.
- Effective October 1, 2020, all hospitals excluding critical access hospitals could again qualify for a DAP between 2.5%-4.5%. Critical access hospitals were eligible for a minimum DAP of 10.0%.

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- The modification of the methodology for calculating indirect Graduate Medical Education (GME) costs resulting in an approximate \$100 million annual increase in indirect GME payments, beginning with the 2016 GME payment. GME payments have continued to steadily increase post-2016.
- The rebases of the APR-DRG reimbursement system, including a third increase to the policy adjustor for high-acuity pediatric cases and the addition of two new policy adjustors, for a net projected increase of \$35 million annually for inpatient reimbursement effective January 1, 2018.
- The creation of the Health Care Investment Fund (HCIF) on October 1, 2020 to support a directed payment program called Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII). In 2020, the Arizona Legislature established the HCIF through the passage of HB 2668. The annual HCIF assessment revenue, when matched with federal funds, resulted in hospitals receiving quarterly HEALTHII directed payments which, in FFY 2021, approximated \$1.275 billion and, after accounting for the HCIF collection amount, reflects a net increase of approximately \$956.6 million.

The first HEALTHII payment was made in the quarter ending December 2020. As a result, hospitals that have a fiscal year that ends in December reflected one quarterly HEALTHII payment in HFY 2020. The full impact of this additional reimbursement is seen in HFY 2021 data.

DEFINITIONS, DATA SOURCES, AND LIMITATIONS

Under the authority of Arizona Revised Statutes § 36-125.04, Arizona Administrative Code (A.A.C.), Title 9, Chapter 11 specifies requirements for hospital financial reporting to the State of Arizona. With the exception of Indian Health Services hospitals and tribally owned or operated hospitals, Arizona hospitals are required to submit annual audited financial statements, the Uniform Accounting Report (UAR), and hospital charge master rates and changes to the Arizona Department of Health Services (ADHS). AHCCCS used hospital-reported information in the UAR for the analysis conducted for this report. One hospital was not a Medicaid provider and was therefore omitted from this report. Additionally, AHCCCS excluded four hospitals for this report in HFY 2021 (PAM Health Rehabilitation Hospital of Surprise, PAM Specialty Hospital of Surprise, KPC Promise Hospital, and Dignity East Valley Rehabilitation Hospital) as the hospitals did not submit the UAR by August 19, 2022, the cut-off date established by AHCCCS in order to complete this report timely. One new hospital opened in 2021 (Abrazo Cave Creek Hospital) and therefore does not have UAR data before HFY 2021.

The most recent complete year for which UAR data was available was HFY 2021. Reporting periods in each year vary by hospital based on each hospital's fiscal year date span; HFYs ended in June, July, September, or December. In cases where the hospital was open both prior to and after a fiscal year which contained greater than or less than 12 months of data, AHCCCS annualized the data for a more accurate year-over-year comparison and to approximate a 12-month period for each hospital. For new hospitals and hospitals which closed, AHCCCS did not annualize the data.

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Various data points may provide a picture of hospital uncompensated care. Common definitions of uncompensated care include bad debt and charity care; other figures may specifically delineate the difference between Medicare and Medicaid payments and hospital “costs” (known as Medicare and Medicaid shortfall amounts). AHCCCS has defined uncompensated care costs to include bad debt and charity care data.

Bad debt consists of services for which the hospital anticipated but did not receive payments. Charity care, in contrast, consists of services which the hospital voluntarily provided free of charge or at a reduced charge due to the patient’s inability to pay. Uncompensated care, charity care, and bad debt in this report are stated in terms of costs as opposed to charges. Costs are determined by multiplying the charges by the hospital specific cost-to-charge ratio computed by AHCCCS. The cost to charge ratio was calculated as follows:

$$\frac{\text{Total expenses exclusive of bad debt}}{\text{Gross patient revenue + other operating revenue}}$$

The cost-to-charge ratio averaged 20.6% in HFY 2020 and 20.9% in HFY 2021. That is, for every one dollar of hospital charges, hospital costs averaged approximately 20.9 cents.

As with uncompensated care, there are several ways to examine profit levels. Total net operating profit is the amount of remaining operating revenue after all operating expenses are paid. A hospital’s operating expenses include items such as salaries, employee benefits, supplies, purchased services, and rentals. Total net profit includes total operating profit as well as revenues and expenses related to non-operating revenues and expenses. Non-operating revenues and expenses include items such as investments, endowments, donations, cafeteria and gift shop sales, and federal taxes paid by for-profit hospitals. Total net operating margin represents the percent of operating revenues left after operating expenses have been paid. Similarly, total income margin represents the total income available after operating and non-operating expenses are paid. AHCCCS has included both net operating margin and total income margin in this report.

SUMMARY OF FINDINGS

Values provided in this Summary of Findings are compiled based on individual and summary data provided by the hospitals included in Appendix C. Dollar figures are rounded and percentages are calculated from unrounded figures, so percentage changes as displayed may not match rounded figures as displayed.

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1. Uncompensated Care Costs

AHCCCS found a wide range of uncompensated care costs reported by hospitals, with such costs across all hospitals reaching \$460 million in HFY 2020 and increasing to \$483 million in HFY 2021. Uncompensated care costs for the two most recent reporting years are noted in Table 1 (in total dollars, except where noted).

Table 1—Uncompensated Care Costs, All Hospitals

	<u>2020</u>	<u>2021</u>	<u>Percentage Change</u>
Total Uncompensated Care Costs	\$460.0 Million	\$482.8 Million	4.9%
Statewide Average Uncompensated Care Costs Per Hospital	\$4.2 Million	\$4.4 Million	4.9%
Lowest Uncompensated Care Costs *	\$(26,039)**	\$(46,529)**	
Highest Uncompensated Care Costs	\$62.5 Million	\$61.7 Million	
* Excludes hospitals which do not provide uncompensated care.			
** Values are negative due to collection of prior year debts.			

2. Percentage of Uncompensated Care

Uncompensated care costs were also examined as a percentage of total expenses. The statewide average percentage of uncompensated care costs declined by 9% during this period as shown in Table 2.

Table 2—Percent of Uncompensated Care, All Hospitals

	<u>2020</u>	<u>2021</u>	<u>Percentage Change</u>
Average % of Uncompensated Care	2.46%	2.24%	(9.0)%
Lowest % of Uncompensated Care Costs	0.06%	(0.28)%*	
Highest % of Uncompensated Care	21.93%	8.03%	
* Values are negative due to collection of prior year debts.			

3. Operating Profitability

Operating profitability continues to range greatly, from significant losses to significant gains. In total, Arizona hospitals included in this analysis had operating profits increase by \$185.9 million, and the percentage of hospitals with a profit increased to 77.3%, higher than the previous year's 73.6%.

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Table 3—Operating Profitability, All Hospitals

	<u>2020</u>	<u>2021</u>	<u>Percentage Change</u>
Total Profitability	\$1,501.2 Million	\$1,687.1 Million	12.4%
Statewide Average Profitability	\$13.6 Million	\$15.3 Million	12.4%
Lowest Profitability/(Highest Loss)	(\$129.2) Million	(\$159.5) Million	
Highest Profitability	\$196.4 Million	\$254.3 Million	
Percent of Hospitals with a Profit	73.6%	77.3%	

4. Net Operating Margin

Net operating margin, defined as profit/loss as a percentage of total revenue, averaged 7.4% across all hospitals in HFY 2020 and 7.3% in HFY 2021, as shown in Table 4. For the purpose of this analysis, average net operating margin equals the statewide total profit (loss)/statewide total revenue. Overall, 73.6% of hospitals in HFY 2020 and 77.3% in HFY 2021 had a positive operating margin.

Table 4—Net Operating Margin, All Hospitals

	<u>2020</u>	<u>2021</u>	<u>Percentage Change</u>
Average Net Operating Margin	7.4%	7.3%	(2.4)%
Lowest Net Operating Margin*	(23.3)%	(100.3)%	
Highest Net Operating Margin	61.9%	56.8%	
Hospitals with Positive Margin	73.6%	77.3%	

*Excludes hospitals which have been open less than 3 years at the end of the reporting period.

5. Total Margin

As discussed earlier, total margin provides another way to evaluate the financial status of hospitals, as it includes non-operating revenues and expenses in addition to operating revenues and expenses. Average total margin is defined as statewide operating and non-operating profit/loss as a percentage of total operating and non-operating revenue. Average total margin was 9.4% across all hospitals in HFY 2020, increasing to 10.1% in HFY 2021, as shown in Table 5.

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Table 5—Total Margin, All Hospitals

	<u>2020</u>	<u>2021</u>	<u>Percentage Change</u>
Average Total Margin	9.4%	10.1%	7.7%
Lowest Total Margin *	(23.3)%	(72.5)%	
Highest Total Margin	61.9%	56.8%	
Hospitals with Positive Total Margin	80.9%	79.1%	

*Excludes hospitals which have been open less than 3 years at the end of the reporting period.

6. Occupancy Rates

In addition to the items specifically requested in legislation, hospital occupancy rates may also be of interest in providing context to these figures. Table 6 shows an increase from HFY 2020 to HFY 2021, with average occupancy rates rising from 61.9% to 67.1%. Hospitals with the lowest occupancy rates are newly opened hospitals.

Table 6—Occupancy Rates, All Hospitals

	<u>2020</u>	<u>2021</u>	<u>Percentage Change</u>
Average Occupancy Rate	61.9%	67.1%	8.4%
Lowest Occupancy Rate	1.6%	9.9%	
Highest Occupancy Rate	100%	97.3%	

7. Days in Accounts Receivable

Days in accounts receivable, or the average number of days that a hospital takes to collect payments, is one factor that is used to measure the liquidity of businesses. A high number of days in accounts receivable can indicate that a hospital is having trouble collecting payments and can have significant impacts on cash flow. As shown in Table 7, average days in accounts receivable were 67 in HFY 2020 and 65 in HFY 2021. Fitch Ratings reports a national average accounts receivable of 44.6 days for not-for-profit health systems in FY 2020.¹

¹ <https://www.beckershospitalreview.com/finance/19-key-financial-benchmarks-for-health-systems.html>

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Table 7—Days in Accounts Receivable, All Hospitals

	<u>2020</u>	<u>2021</u>	<u>Percentage Change</u>
Average Days in Accounts Receivable	67	65	(3.0)%
Fewest Days	14	0	
Most Days *	362	260	

* Excludes hospitals which have been open less than 2 years at the end of the reporting period.

DATA BY HOSPITAL TYPES

In order to provide more meaningful results, AHCCCS has stratified the data in a variety of ways. Below is a comparison of hospitals by peer group, urban and rural locations, for-profit and non-profit, Medicaid volume, and by hospital system.

Hospital Peer Types

Table 8 segregates Arizona hospitals into six categories: critical access, long term acute care, rehabilitation, psychiatric, short-term specialty, and general acute care. Hospitals were assigned these categories based on their classification in the ADHS Provider and Facility Database as of January 1, 2022. For purposes of this report, AHCCCS has categorized hospitals which do not fall into any of the other 5 categories as general acute care hospitals. General acute care hospitals tend to be large, as indicated by the fact that approximately half of the hospitals are classified as general acute care hospitals, but they include over 90% of total hospital revenue.

Grouped by peer type, the average for hospital uncompensated care as a percentage of total expenses ranged from 0.4% to 3.1% in HFY 2020 and 0.1% to 2.8% in HFY 2021. Critical Access hospital peer types reported the highest uncompensated care as a percentage of total expenses in both HFY 2020 and HFY 2021, having exceeded 3.0% in HFY 2020 before dipping back below 3.0% in HFY 2021. Two types experienced rates less than 1.0% in both years (short term specialty and long term acute care). Only one peer type, rehabilitation, experienced an increase in uncompensated care from HFY 2020 to HFY 2021 (from 1.2% to 1.4%).

There continues to be a variance in net operating profit (as well as total profit) between the different peer groups. In HFY 2020, the range in net operating margin was from 4.3% (critical access) to 18.2% (short-term specialty). In HFY 2021, the range in net operating margin was similar, going from 3.1% (long term) to 16.0% (short-term specialty). Short-term specialty hospitals remain the peer group with the highest net operating margin.

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The number of long-term acute care hospitals has declined from 10 at the beginning of 2015 to six at the end of 2021.² Some of the changes in net operating profitability, according to representatives of Arizona long term acute care hospitals, are due to changes in the way CMS began reimbursing long term acute care hospitals beginning in fiscal year 2016. As a condition of reimbursement, CMS now requires patients admitted to a long-term care hospital to have spent at least three days in the intensive care unit, in the coronary care unit, or on a ventilator. The changes are dramatic enough that Standard & Poor’s predicted in 2016 that a “material portion” of long-term acute care hospitals nationwide would close over the next few years.³

While Arizona has lost long term care hospitals in recent years, the number of psychiatric hospitals and rehabilitation hospitals has grown. Three new psychiatric hospitals have opened since HFY 2019. Copper Springs East and Phoenix Medical Psychiatric Hospital are located in Maricopa County, while Medical Behavioral Hospital of Northern Arizona has opened in Yavapai County. Two new rehabilitation hospitals have also opened since HFY 2019.⁴

² PAM Health Specialty Hospital of Surprise and KPC Promise Hospital are not included in the 2021 data due to untimely submission. The calculations of this report have four hospitals listed as long term acute care.

³ <https://www.fiercehealthcare.com/finance/s-p-long-term-care-hospitals-hit-hard-by-medicare-payment-changes>

⁴ Cobalt Rehabilitation Hospital is not included in the 2021 data due to untimely submission. The calculations of this report have twelve hospitals listed as Rehabilitation.

Table 8-- Uncompensated Care and Profitability by Hospital Peer Group

	Critical Access	Long Term	Rehabilitation	Psychiatric	Short Term Specialty	General Acute Care
Number of Hospitals which Submitted a UAR (HFY 2021)	12	5	12	20	5	58
2020 Uniform Accounting Report						
Occupancy Rate	28.2%	50.9%	59.7%	73.4%	34.6%	62.1%
Total Gains, Revenues, and Other Support	\$ 377,387,405	\$ 83,893,342	\$ 230,343,464	\$ 413,824,148	\$ 355,316,282	\$ 18,765,704,989
Total Expenses	\$ 361,143,316	\$ 76,744,564	\$ 207,699,193	\$ 371,536,472	\$ 290,810,099	\$ 17,417,342,902
Net Operating Profit(Loss)	\$ 16,244,089	\$ 7,148,778	\$ 22,644,272	\$ 42,287,676	\$ 64,506,184	\$ 1,348,362,087
Net Operating Margin	4.3%	8.5%	9.8%	10.2%	18.2%	7.2%
Total Income Margin	9.2%	8.1%	8.3%	10.3%	17.9%	9.2%
Days in Accounts Receivable	55	77	56	62	51	68
Cost to Charge Ratio	32.4%	20.6%	50.0%	37.4%	17.5%	20.1%
Cost of Bad Debts	\$ 8,540,868	\$ 302,899	\$ 809,388	\$ 5,389,049	\$ 802,799	\$ 170,435,047
Charity Cost	\$ 2,635,088	\$ -	\$ 1,634,147	\$ 1,510,833	\$ 905,414	\$ 249,820,366
Uncompensated Care Cost	\$ 11,175,957	\$ 302,899	\$ 2,443,535	\$ 6,899,882	\$ 1,708,212	\$ 420,255,413
Uncompensated Care Cost as a % of Total Expenses	3.1%	0.4%	1.2%	1.9%	0.6%	2.4%
2021 Uniform Accounting Report						
Occupancy Rate	35.3%	75.1%	68.0%	80.8%	37.2%	66.6%
Total Gains, Revenues, and Other Support	\$ 526,878,616	\$ 81,431,113	\$ 255,533,324	\$ 482,660,464	\$ 379,135,735	\$ 21,560,251,003
Total Expenses	\$ 470,776,007	\$ 78,930,685	\$ 218,425,278	\$ 425,420,745	\$ 318,598,928	\$ 20,086,604,820
Net Operating Profit(Loss)	\$ 56,102,609	\$ 2,500,428	\$ 37,108,047	\$ 57,239,720	\$ 60,536,808	\$ 1,473,646,182
Net Operating Margin	10.6%	3.1%	14.5%	11.9%	16.0%	6.8%
Total Income Margin	15.9%	8.4%	11.5%	11.9%	15.5%	9.8%
Days in Accounts Receivable	53	75	58	83	43	65
Cost to Charge Ratio	32.8%	17.9%	46.3%	37.6%	17.7%	20.5%
Cost of Bad Debts	\$ 10,502,857	\$ 63,655	\$ 2,416,405	\$ 3,729,039	\$ 554,307	\$ 166,742,258
Charity Cost	\$ 2,815,550	\$ -	\$ 701,273	\$ 1,946,409	\$ 1,024,677	\$ 292,286,285
Uncompensated Care Cost	\$ 13,318,407	\$ 63,655	\$ 3,117,679	\$ 5,675,448	\$ 1,578,985	\$ 459,028,543
Uncompensated Care Cost as a % of Total Expenses	2.8%	0.1%	1.4%	1.3%	0.5%	2.3%
CHANGE: 2020 to 2021						
Average Occupancy Percentage	25.3%	47.5%	13.9%	10.0%	7.8%	7.2%
Total Gains, Revenues, and Other Support	\$ 149,491,211	\$ (2,462,229)	\$ 25,189,860	\$ 68,836,316	\$ 23,819,453	\$ 2,794,546,014
Total Expenses	\$ 109,632,691	\$ 2,186,121	\$ 10,726,085	\$ 53,884,273	\$ 27,788,829	\$ 2,669,261,918
Net Operating Profit(Loss)	\$ 39,858,519	\$ (4,648,350)	\$ 14,463,775	\$ 14,952,044	\$ (3,969,376)	\$ 125,284,096
Net Operating Margin	147.4%	-64.0%	47.7%	16.1%	-12.0%	-4.9%
Total Margin	74.0%	3.7%	38.4%	15.9%	-13.1%	6.4%
Average Days in Accounts Receivable	-2	-2	2	21	-8	-3
Cost to Charge Ratio	1.2%	-13.5%	-7.3%	0.6%	1.0%	2.0%
Cost of Bad Debts	\$ 1,961,989	\$ (239,244)	\$ 1,607,017	\$ (1,660,010)	\$ (248,491)	\$ (3,692,789)
Charity Cost	\$ 180,461	\$ -	\$ (932,874)	\$ 435,576	\$ 119,264	\$ 42,465,919
Uncompensated Care Cost	\$ 2,142,450	\$ (239,244)	\$ 674,144	\$ (1,224,434)	\$ (129,227)	\$ 38,773,131
Uncompensated Care Cost as % of Total Expenses	-8.6%	-79.6%	21.3%	-28.2%	-15.6%	-5.3%

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Urban and Rural Hospitals

In addition to categorizing hospitals by peer group, this report displays the differences in uncompensated care and profitability for rural and urban hospitals in Table 9. For purposes of this report, AHCCCS has defined “urban hospital” as one which is physically located in Maricopa County or Pima County, consistent with A.A.C. R9-22-718. Rural hospitals include those located in any other Arizona county. During 2021, approximately 71% of hospitals were located in urban areas, and about 84% of total gains, revenues, and other support went to urban hospitals. From HFY 2020 to HFY 2021, urban hospitals’ uncompensated care decreased for the first time in three years, going from 2.3% to 2.1%. Rural hospitals uncompensated care also decreased from 3.0% in HFY 2020 to 2.9% in HFY 2021.

As a whole, rural hospitals averaged higher net operating margins and total margins than urban hospitals; in HFY 2021, rural hospitals had a net operating margin of 10.5% compared to 6.6% for urban hospitals. In HFY 2021, total income margins were 16.2% for rural hospitals and 8.8% for urban hospitals. Rural hospitals also have a higher growth in both net operating and total income margins between HFY 2020 and HFY 2021, with an increase in net operating profit from 7.9% in HFY 2020 to 10.5% in HFY 2021 and an increase in total income margin from 9.8% in HFY 2020 to 16.2% in HFY 2021.

Critical Access Hospital (CAH) is a federal designation given to certain rural hospitals which have no more than 25 acute care inpatient beds, are located more than a 35-mile drive from another hospital, offer emergency services 24/7, and have an annual average length of stay of 96 hours or fewer for acute care patients. Profit levels for CAHs were similar to the average for all rural hospitals, at 10.6% net operating margin and 15.9% total income margin for HFY 2021. One hospital, Mt. Graham Regional Medical Center, became a designated CAH in October 2021.

For Profit and Non-Profit Hospitals

Table 9 also stratifies hospitals by their tax status: for-profit and non-profit. Arizona non-profit hospitals are exempt from federal income taxes, sales taxes on most supplies and equipment, and some property taxes. Non-profit hospitals are required to provide charity care and community benefit.⁵ Being a non-profit hospital does not mean that a hospital cannot make a profit. In fact, the most profitable hospitals in both HFY 2020 and HFY 2021 were the non-profit hospitals, as a group.

In HFY 2019, Mayo Clinic had the largest net operating profit of \$161 million. In HFY 2020 and HFY 2021, Phoenix Children’s Hospital had the largest net operating profit, of \$196 million and \$254 million, respectively. As a group, non-profit hospitals had a net operating profit of approximately \$1.2 billion in HFY 2020 and cleared \$1.3 billion in HFY 2021. In comparison, for-

⁵ Community benefits include patient financial assistance, unreimbursed Medicaid costs and other means-tested public programs, community health improvement services, health professions education, research, subsidized health services, and cash and in-kind support to community groups and organizations.

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profit hospitals' net operating profit was approximately \$306 million and \$346 million in HFYs 2020 and 2021, respectively.

These dollar figures, however, must be viewed in the context of hospital size and business model. While non-profit hospitals constitute approximately half of all hospitals in Arizona, they received approximately 83% of total gains, revenues, and other support (in part because they are typically much larger than the types of hospitals that are more often for-profit). For-profit hospitals are more likely to be rehabilitation, psychiatric, short-term specialty, or long-term acute care hospitals, whereas the majority of non-profit hospitals are general acute care hospitals, which tend to be larger than other hospital types.

Medicaid Volume

Table 9 also compares hospital uncompensated care and profitability by Medicaid volume: hospitals with Medicaid volume less than 25%, from 25-50%, and greater than 50%.⁶

The percentage of uncompensated care in both years was lowest at hospitals with Medicaid volume less than 25%, with uncompensated care at 1.6% in HFY 2020 and 1.5% HFY 2021. Hospitals with Medicaid volume above 50% had the largest amounts of uncompensated care: 4.5% in HFY 2020 and 3.7% in HFY 2021. As explained earlier, uncompensated care in this report is defined as the sum of charity care and the provision of bad debt, so the uncompensated care would not include any shortfall associated with Medicaid payments and the cost of services.

In addition to uncompensated care costs, there continues to be a correlation between Medicaid volume and net operating margin. In both years, hospitals with Medicaid volume less than 25% had the highest net operating margins (8.4% in HFY 2020 and 7.8% in HFY 2021). Hospitals with Medicaid volume greater than 50% had a net operating margin in HFY 2021 of 7.0%, and hospitals with Medicaid volume between 25% and 50% had an HFY 2021 net operating margin of 6.9%. It should be noted that hospitals with Medicaid volume greater than 50% had the only year-to-year increase of the three categories

⁶ To calculate Medicaid volume, AHCCCS divided inpatient days recorded in the AHCCCS payment system by total inpatient days as recorded on the hospital's most recent Medicare Cost Report.

Table 9 -- Uncompensated Care and Profitability by Various Hospital Type

	Urban	Rural	For-Profit	Non-Profit	Medicaid Volume > 50%	Medicaid Volume 25%-50%	Medicaid Volume < 25%
Number of Hospitals which Submitted a UAR (HFY 2021)	80	32	59	53	16	45	51
2020 Uniform Accounting Report							
Occupancy Rate	64.6%	47.0%	57.4%	64.0%	67.3%	66.7%	54.4%
Total Gains, Revenues, and Other Support	\$ 16,947,242,956	\$ 3,279,226,675	\$ 3,508,494,609	\$ 16,717,975,022	\$ 2,116,848,046	\$ 10,594,517,169	\$ 7,515,104,416
Total Expenses	\$ 15,704,506,698	\$ 3,020,769,847	\$ 3,202,721,251	\$ 15,522,555,294	\$ 2,031,593,178	\$ 9,811,236,960	\$ 6,882,446,407
Net Operating Profit(Loss)	\$ 1,242,736,258	\$ 258,456,828	\$ 305,773,358	\$ 1,195,419,728	\$ 85,254,868	\$ 783,280,208	\$ 632,658,009
Net Operating Margin	7.3%	7.9%	8.7%	7.2%	4.0%	7.4%	8.4%
Total Income Margin	9.3%	9.8%	7.5%	9.8%	11.7%	9.0%	9.3%
Days in Accounts Receivable	69	58	59	69	62	58	81
Cost to Charge Ratio	20.3%	21.7%	14.2%	22.6%	30.1%	20.0%	19.5%
Cost of Bad Debts	\$ 123,732,030	\$ 62,367,740	\$ 26,385,962	\$ 160,627,914	\$ 32,451,453	\$ 98,358,689	\$ 57,642,836
Charity Cost	\$ 230,897,120	\$ 27,575,452	\$ 22,963,453	\$ 248,987,746	\$ 58,793,391	\$ 157,442,943	\$ 54,386,135
Uncompensated Care Cost	\$ 354,629,150	\$ 89,943,192	\$ 49,349,415	\$ 409,615,659	\$ 91,244,844	\$ 255,801,631	\$ 112,028,971
Uncompensated Care Cost as a % of Total Expenses	2.3%	3.0%	1.5%	2.6%	4.5%	2.6%	1.6%
2021 Uniform Accounting Report							
Occupancy Rate	70.2%	50.6%	61.6%	69.5%	71.7%	67.8%	64.1%
Total Gains, Revenues, and Other Support	\$ 19,406,127,429	\$ 3,879,762,827	\$ 3,874,273,388	\$ 19,411,616,868	\$ 2,294,228,569	\$ 12,439,069,247	\$ 8,552,592,440
Total Expenses	\$ 18,126,540,190	\$ 3,472,216,272	\$ 3,527,918,975	\$ 18,070,837,487	\$ 2,134,501,979	\$ 11,581,506,459	\$ 7,882,748,024
Net Operating Profit(Loss)	\$ 1,279,587,239	\$ 407,546,555	\$ 346,354,413	\$ 1,340,779,380	\$ 159,726,590	\$ 857,562,787	\$ 669,844,416
Net Operating Margin	6.6%	10.5%	8.9%	6.9%	7.0%	6.9%	7.8%
Total Income Margin	8.8%	16.2%	7.7%	10.6%	16.4%	9.2%	9.6%
Days in Accounts Receivable	68	51	60	66	83	56	72
Cost to Charge Ratio	20.8%	21.5%	13.5%	23.5%	28.2%	20.2%	20.6%
Cost of Bad Debts	\$ 122,171,217	\$ 61,837,306	\$ 29,163,064	\$ 154,845,459	\$ 19,567,353	\$ 101,535,533	\$ 62,905,638
Charity Cost	\$ 258,637,497	\$ 40,136,697	\$ 17,975,488	\$ 280,798,706	\$ 59,315,802	\$ 183,291,212	\$ 56,167,180
Uncompensated Care Cost	\$ 380,808,714	\$ 101,974,003	\$ 47,138,551	\$ 435,644,165	\$ 78,883,155	\$ 284,826,744	\$ 119,072,818
Uncompensated Care Cost as a % of Total Expenses	2.1%	2.9%	1.3%	2.4%	3.7%	2.5%	1.5%
CHANGE: 2020 to 2021							
Average Occupancy Percentage	8.7%	7.5%	7.4%	8.6%	6.5%	1.6%	17.7%
Total Gains, Revenues, and Other Support	\$ 2,458,884,473	\$ 600,536,152	\$ 365,778,779	\$ 2,693,641,845	\$ 177,380,523	\$ 1,844,552,078	\$ 1,037,488,024
Total Expenses	\$ 2,422,033,492	\$ 451,446,425	\$ 325,197,724	\$ 2,548,282,193	\$ 102,908,801	\$ 1,770,269,499	\$ 1,000,301,617
Net Operating Profit(Loss)	\$ 36,850,981	\$ 149,089,727	\$ 40,581,055	\$ 145,359,652	\$ 74,471,721	\$ 74,282,579	\$ 37,186,407
Net Operating Margin	-10.1%	33.3%	2.6%	-3.4%	72.9%	-6.8%	-7.0%
Total Margin	-5.2%	65.7%	3.1%	8.2%	40.7%	2.2%	3.8%
Average Days in Accounts Receivable	(1)	(7)	1	(3)	21	(2)	(9)
Cost to Charge Ratio	2.5%	-1.0%	-5.1%	3.8%	-6.2%	1.2%	5.5%
Cost of Bad Debts	\$ (1,560,813)	\$ (530,434)	\$ 2,777,102	\$ (5,782,455)	\$ (12,884,100)	\$ 3,176,844	\$ 5,262,802
Charity Cost	\$ 27,740,377	\$ 12,561,245	\$ (4,987,965)	\$ 31,810,961	\$ 522,411	\$ 25,848,269	\$ 1,781,045
Uncompensated Care Cost	\$ 26,179,563	\$ 12,030,811	\$ (2,210,863)	\$ 26,028,506	\$ (12,361,689)	\$ 29,025,113	\$ 7,043,847
Uncompensated Care Cost as % of Total Expenses	-7.0%	-1.4%	-13.3%	-8.6%	-17.7%	-5.7%	-7.2%

HOSPITAL SYSTEMS

Finally, AHCCCS has presented hospital profitability and uncompensated care by hospital systems. Table 10 lists all nine hospital systems that include at least three hospitals. A full listing of the hospitals in each system can be found in Appendix B. The total revenue, gains, and other support and expenses have been included, as well as other variables provided in previous tables for the hospital systems in Table 10. Hospitals are included as part of a hospital system if they were in that system as of January 30, 2022, regardless of whether they were in that hospital system in both 2020 and 2021.

Hospital system operating profits ranged from approximately \$636 million (Banner Health) to \$2.5 million (Steward Health Care) in HFY 2020, and \$389 million (Banner Health) to \$(21) million (Steward Health Care) in HFY 2021. Net operating margin ranged from 17.4% (Lifepoint Health) to 0.8% (Steward Health Care) in HFY 2020, and 19.8% (Lifepoint Health) to (6.8)% (Steward Health Care) in HFY 2021. In both fiscal years, Steward Health Care had the lowest operating profits and net operating margin. The main driver for Steward Health Care in previous years was attributed to St. Luke's Medical Center, which is now closed. They then opened Florence Hospital in HFY 2020, a general acute care hospital. In general, new hospitals incur net losses in the first few years as they begin operations at the facility.

Uncompensated care ranged widely between health systems, from a high of 3.0% to a low of 0.7% in HFY 2020 and from a high of 2.9% to a low of 0.4% in HFY 2021. Community Health Systems had the lowest uncompensated care cost as a percentage of total expenses for both HFY 2020 and HFY 2021.

Banner Health, the state's largest health system, includes 18 hospitals and had annual hospital patient revenues of approximately \$5.9 billion in HFY 2020 and \$6.8 billion in HFY 2021. The next largest health systems had annual net patient revenues of approximately \$3.1 billion (Dignity Health) and \$2.7 billion (HonorHealth) in HFY 2021. Uncompensated care was 2.2% for Banner Health, 2.9% for Dignity Health, and 2.4% for HonorHealth in HFY 2021. The Encompass Health system consists of rehabilitation hospitals; consistent with its peer group, the system had a low level of uncompensated care of 1.6% in HFY 2021, although it is an increase from 0.8% in HFY 2020.

Table 10 -- Uncompensated Care and Profitability by Hospital System

	Abrazo Health Care	Banner Health Systems	Community Health Systems	Dignity Health	Encompass Health (Formerly HealthSouth)	HonorHealth	Lifepoint Health	Select Medical	Steward Health Care
Number of Hospitals which Submitted a UAR (HFY 2021)	12	18	4	10	6	6	3	6	4
2020 Uniform Accounting Report									
Occupancy Rate	55.1%	69.1%	44.9%	69.5%	64.0%	57.7%	45.5%	46.0%	63.5%
Total Revenue, Gains, and Other Support	\$ 1,348,928,277	\$ 5,950,137,235	\$ 491,283,370	\$ 2,800,864,653	\$ 133,249,567	\$ 1,935,784,145	\$ 395,395,976	\$ 94,989,924	\$ 306,780,909
Total Expenses	\$ 1,243,081,277	\$ 5,313,706,772	\$ 430,384,550	\$ 2,656,276,983	\$ 117,435,292	\$ 1,814,762,804	\$ 326,776,315	\$ 91,881,318	\$ 304,334,529
Net Operating Profit(Loss)	\$ 105,847,000	\$ 636,430,463	\$ 60,898,820	\$ 144,587,669	\$ 15,814,275	\$ 121,021,341	\$ 68,619,661	\$ 3,108,606	\$ 2,446,380
Net Operating Margin	7.8%	10.7%	12.4%	5.2%	11.9%	6.3%	17.4%	3.3%	0.8%
Total Income Margin	5.9%	10.7%	12.4%	11.2%	8.3%	6.3%	9.8%	3.3%	0.8%
Days in Accounts Receivable	63	54	56	58	48	63	47	91	72
Cost to Charge Ratio	11.5%	19.8%	9.2%	21.0%	54.9%	16.3%	14.3%	25.2%	20.5%
Cost of Bad Debts	\$ 9,169,523	\$ 36,344,765	\$ 2,870,338	\$ 27,557,464	\$ 822,133	\$ 10,994,506	\$ 4,087,517	\$ 240,117	\$ 2,532,757
Charity Cost	\$ 10,811,646	\$ 91,963,569	\$ 38,197	\$ 53,208,704	\$ 97,848	\$ 24,720,582	\$ 71,666	\$ 768,031	\$ 15,367
Uncompensated Care Cost	\$ 19,981,169	\$ 128,308,334	\$ 2,908,535	\$ 80,766,168	\$ 919,981	\$ 35,715,088	\$ 4,159,184	\$ 1,008,148	\$ 2,548,124
Uncompensated Care Cost as a % of Total Expenses	1.6%	2.4%	0.7%	3.0%	0.8%	2.0%	1.3%	1.1%	0.8%
2021 Uniform Accounting Report									
Occupancy Rate	56.2%	75.6%	51.4%	74.3%	64.6%	64.9%	47.2%	74.5%	61.0%
Total Revenue, Gains, and Other Support	\$ 1,448,116,166	\$ 6,752,705,082	\$ 586,721,830	\$ 3,142,919,731	\$ 139,504,003	\$ 2,700,073,197	\$ 464,092,117	\$ 141,065,401	\$ 316,407,434
Total Expenses	\$ 1,332,516,166	\$ 6,363,749,961	\$ 514,232,148	\$ 2,896,102,489	\$ 115,825,549	\$ 2,535,421,614	\$ 372,122,485	\$ 133,432,432	\$ 337,951,809
Net Operating Profit(Loss)	\$ 115,600,000	\$ 388,955,121	\$ 72,489,682	\$ 246,817,242	\$ 23,678,454	\$ 164,651,583	\$ 91,969,632	\$ 7,632,969	\$ (21,544,375)
Net Operating Margin	8.0%	5.8%	12.4%	7.9%	17.0%	6.1%	19.8%	5.4%	-6.8%
Total Income Margin	6.1%	5.8%	11.9%	10.2%	11.1%	10.8%	16.9%	8.9%	-6.8%
Days in Accounts Receivable	67	50	62	62	58	60	18	67	68
Cost to Charge Ratio	10.5%	21.8%	9.5%	21.5%	53.5%	18.3%	14.3%	24.0%	20.8%
Cost of Bad Debts	\$ 8,658,857	\$ 28,650,674	\$ 2,012,069	\$ 29,293,363	\$ 1,776,526	\$ 24,851,447	\$ 3,637,553	\$ 563,018	\$ 3,481,088
Charity Cost	\$ 8,527,028	\$ 109,272,585	\$ 61,661	\$ 54,024,712	\$ 128,255	\$ 35,740,909	\$ 357,127	\$ 562,208	\$ 10,040
Uncompensated Care Cost	\$ 17,185,885	\$ 137,923,259	\$ 2,073,730	\$ 83,318,075	\$ 1,904,781	\$ 60,592,356	\$ 3,994,680	\$ 1,125,226	\$ 3,491,128
Uncompensated Care Cost as a % of Total Expenses	1.3%	2.2%	0.4%	2.9%	1.6%	2.4%	1.1%	0.8%	1.0%
CHANGE: 2020 to 2021									
Average Occupancy Percentage	1.9%	9.4%	14.6%	7.0%	0.9%	12.5%	3.8%	61.8%	-4.0%
Total Revenue, Gains, and Other Support	\$ 99,187,889	\$ 802,567,847	\$ 95,438,460	\$ 342,055,078	\$ 6,254,436	\$ 764,289,052	\$ 68,696,141	\$ 46,075,477	\$ 9,626,525
Total Expenses	\$ 89,434,889	\$ 1,050,043,188	\$ 83,847,598	\$ 239,825,505	\$ (1,609,744)	\$ 720,658,810	\$ 45,346,170	\$ 41,551,114	\$ 33,617,280
Total Net Operating Profit(Loss)	\$ 9,753,000	\$ (247,475,342)	\$ 11,590,862	\$ 102,229,573	\$ 7,864,179	\$ 43,630,243	\$ 23,349,971	\$ 4,524,363	\$ (23,990,755)
Net Operating Margin	1.7%	-46.1%	-0.3%	52.1%	43.0%	-2.5%	14.2%	65.3%	-953.9%
Total Margin	2.8%	-46.1%	-3.6%	-9.1%	34.4%	72.2%	72.2%	170.2%	-953.7%
Average Days in Accounts Receivable	4	(4)	6	4	10	(3)	(29)	(24)	(4)
Cost to Charge Ratio	-8.8%	10.4%	2.9%	2.3%	-2.5%	11.9%	0.2%	-5.0%	1.3%
Cost of Bad Debts	\$ (510,666)	\$ (7,694,091)	\$ (858,270)	\$ 1,735,898	\$ 954,394	\$ 13,856,941	\$ (449,965)	\$ 322,901	\$ 948,331
Charity Cost	\$ (2,284,618)	\$ 17,309,016	\$ 23,465	\$ 816,008	\$ 30,406	\$ 11,020,328	\$ 285,461	\$ (205,822)	\$ (5,326)
Uncompensated Care Cost	\$ (2,795,284)	\$ 9,614,924	\$ (834,805)	\$ 2,551,906	\$ 984,800	\$ 24,877,268	\$ (164,504)	\$ 117,079	\$ 943,004
Uncompensated Care Cost as % of Total Expenses	-19.8%	-10.2%	-40.3%	-5.4%	109.9%	21.4%	-15.7%	-23.1%	23.4%

HEALTH CARE INDUSTRY TRENDS

As mentioned in prior reports, there are a number of changes occurring across the health care delivery system that are impacting hospital finances, including a large number of mergers and acquisitions, vertical integration, the diversification of revenue sources, outpatient migration, the expansion of services closer to home (e.g., freestanding emergency departments and micro-hospitals), and value based purchasing initiatives.

COVID-19 Impacts

The COVID-19 Public Health Emergency (PHE) that began in early 2020 has had an impact on industries across the board, particularly on the health care industry. While there are no specific COVID-19 sections in the data hospitals submitted in their UARs, there are still many changes that can be identified within the past year. As has been previously stated in this report, the latest data used in this report is from HFY 2021.

Admission rates at hospitals decreased dramatically at the beginning of the PHE, as elective procedures were canceled or postponed due to the spread of the virus. Admissions rates continued to fluctuate throughout 2020, as people may have been “delaying or forgoing care due to the pandemic, in some cases likely due to hospital capacity constraints”.⁷ While the average occupancy rate was 61.9% in HFY 2020, it rebounded in HFY 2021 to 67.1%, an 8.4% year-to-year increase. Note that this was higher than the three years prior to the PHE, which averaged 63% occupancy.

On a state and national level, there has also been direct funding related to the PHE. The Provider Relief Fund was established under the CARES Act to support providers impacted by COVID-19. It has been managed at the federal level by the Health Resources & Services Administration (HRSA). A general relief distribution program was established for the majority of providers as the first relief program. After the creation of the general relief program, HRSA implemented the following targeted relief distribution:

- COVID-19 High Impact Area Distributions: \$21.8B in Allocations - Arizona received \$214M
- Safety Net Hospitals: \$13B in Allocation - Arizona received \$258M
- Rural Distributions: \$11.09B in Allocation
- Children’s Hospitals: \$1.1B in Allocation

Hospitals reported on their annual Medicare Cost Report (MCR) the total COVID-19 Provider Relief Funds. The Medicare Cost Reports did not identify from which federal program the funds were awarded; however, it provides the public insight on the support each hospital received from this program. While not all received this additional funding, those which did received an

⁷ Tyler Heist, Karyn Schwartz, and Sam Butler, “Trends in Overall and Non-Covid-19 Hospital Admissions.” February 18, 2021, <https://www.kff.org/health-costs/issue-brief/trends-in-overall-and-non-covid-19-hospital-admissions/> (accessed August 18, 2022).

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estimated total of \$495 million in HFY 2020 and \$377 million in HFY2021. Banner University Medical Center - Phoenix was the largest recipient with an estimated \$26.3 million in PHE funds received in HFY 2021. For hospital specific details that were reported on the most recent Medicare Cost Report, please refer to Appendix D at the end of the report.

AHCCCS also implemented a variety of methods starting in HFY 2020 to assist in offsetting the expected negative effects of the pandemic on hospitals. AHCCCS typically distributes two Prop 202 Trauma and ED payments per year from the fund derived from the Department of Gaming which is meant to assist hospitals with a Level 1 Trauma Center and/or Emergency Departments. This was divided into three payments for SFY 2021, to provide a timelier payment stream for hospitals in need. Hospitals in the Graduate Medical Education program, or GME, also received \$50 million in accelerated payments in HFY 2020.⁹ CAH payment amounts, or Critical Access Hospital payments, were increased by \$5.3 million in HFY 2020, and again by approximately \$2.2 million in HFY 2021.⁸

Hospital Openings and Closures

This report reflects no recent hospital closures, with the last hospital closures being St. Luke's Medical Center and Hacienda Children's Hospital in late 2019. Santa Cruz Valley Regional Hospital closed in June 2022, which will be reflected in future reports. Comparatively, 12 new hospitals have been added to the report since 2020; seven of these are acute care hospitals. Abrazo Healthcare added three acute care hospitals, while Banner Health added one. While the majority of new acute care hospitals were classified as urban, many of them were opened on the outskirts of the larger metro areas to meet the population growth occurring in Arizona. Banner Health and Select Medical Group also opened two new rehabilitation hospitals as a joint venture, although they are retained under the Select Medical Group system. Also of note are the additions of three psychiatric hospitals: Copper Springs East, Phoenix Medical Psychiatric, and Medical Behavioral Hospital of Northern Arizona.

Finally, it should be noted that a number of changes in the health care industry may be particularly challenging financially for rural hospitals. Out of the twelve new hospital additions, only two are rural hospitals (Florence Hospital and Medical Behavioral Hospital of Northern Arizona). It has been documented how rural hospitals have had continuing financial struggles, and these were exacerbated by the COVID-19 pandemic, with 2020 having a record high for rural hospital closures nationwide.⁹ It has also been reported over 18% of Arizona rural hospitals are

⁸ AHCCCS "AHCCCS Stabilizes Health Care Providers with Financial Relief During COVID-19 Pandemic." November 2, 2020 <https://www.azahcccs.gov/shared/News/GeneralNews/AHCCCSStabilizesProvidersFinRelief.html>

⁹ Ellison, Ayla "Why rural hospital closures hit a record high in 2020", March 16, 2021. https://www.beckershospitalreview.com/finance/why-rural-hospital-closures-hit-a-record-high-in-2020.html?origin=CFOE&utm_source=CFOE&utm_me%E2%80%A6

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at a current risk of closure.¹⁰ As the focus shifts to development in the urban areas, Arizona rural hospitals could face additional challenges and exponentially slower growth. Closures of rural hospitals then may present challenges to nearby patients, who often must travel a considerable distance to the next closest hospital. AHCCCS is continuing to monitor market conditions to ensure that AHCCCS members have adequate access to care.

Micro-Hospitals and Freestanding Emergency Departments

Despite health care industry consolidation, access points in some areas have increased. Dignity Health and Abrazo Health each opened three “micro-hospitals” in recent years. Dignity Health opened St. Joseph Westgate, Arizona General Hospital – Laveen, and Arizona General Hospital – Mesa. Abrazo Health opened Abrazo-Mesa Hospital, Abrazo-Surprise, and Abrazo-Cave Creek. Phoenix ER & Medical Hospital and Tucson ER & Medical Hospital have previously opened as part of the micro-hospital trend. East Valley ER & Hospital is the most recent micro-hospital to open. Although AHCCCS has been unable to find an official definition of a “micro-hospital,” it is often described as a small inpatient hospital which operates 24/7, has an emergency department, is usually around 15,000 to 50,000 square feet and has fewer beds than a full-scale hospital.^{11 12 13} They offer a small number of services, such as surgical suites, a labor and delivery room, and primary care services on-site.

A number of hospital systems continue to build freestanding emergency departments (FrEDs) in recent years. FrEDs are facilities which are structurally separate and distinct from a hospital and are staffed 24/7 by emergency medicine physicians and nurses and do not offer any inpatient services. Although the services among FrEDs may vary, in addition to emergency and urgent care, most facilities offer x-rays, clinical laboratory services, CT scans, ultrasounds, and pharmaceuticals. While FrEDs initially emerged in the 1970s to fill a void in rural and underserved areas, FrEDs have recently proliferated in suburban areas. From 2008 to 2016 the number of FrEDs in the U.S. grew from 220 to 566, a 157% increase.^{14 15} In Arizona, at least 20 such facilities have opened since 2010.

¹⁰ Center for Healthcare Quality and Payment Reform “RURAL HOSPITALS AT RISK OF CLOSING” July 2022 https://chqpr.org/downloads/Rural_Hospitals_at_Risk_of_Closing.pdf

¹¹ Saulsberry, Kalyn. “To Grow Your Hospital, Think Micro.” Advisory Board. May 20, 2016. <https://www.advisory.com/research/financial-leadership-council/at-the-margins/2016/05/micro-hospitals>

¹² Budryk, Zack. “Micro-hospitals Offer Alternative to Urgent Care Model.” FierceHealthcare. June 28, 2016. <http://www.fiercehealthcare.com/healthcare/micro-hospitals-offer-alternative-to-urgent-care-model>

¹³ Andrews, Michelle. “Sometimes Tiny is Just the Right Size: ‘Microhospitals Filling Some ER Needs.’ Kaiser Health News. July 19, 2016. <http://khn.org/news/sometimes-tiny-is-just-the-right-size-microhospitals-filling-some-er-needs/>

¹⁴ Harish Nir, Jennifer L. Wiler, and Richard Zane. “How the Freestanding Emergency Department Boom Can Help Patients.” NEJM Catalyst. February 18, 2016. <http://catalyst.nejm.org/how-the-freestanding-emergency-department-boom-can-help-patients/>

¹⁵ MedPAC, “Chapter 8: Stand-Alone Emergency Departments,” Report to the Congress: Medicare and the Health Care Delivery System, June 2017. http://www.medpac.gov/docs/default-source/reports/jun17_ch8.pdf

Outpatient Migration

The shift from inpatient to outpatient care continues steadily as health care advances and payers try to contain costs. In the past decade, surgeries such as total joint replacement, spine fusions, and even some cardiovascular procedures have migrated to the outpatient setting. As this trend continues, we are likely to see only the most complex procedures and those for high-risk patients performed in an inpatient setting.¹⁶ While some of these procedures have moved from inpatient to outpatient hospital settings, others have moved to ambulatory surgical centers, free-standing facilities that operate exclusively for the purpose of furnishing outpatient surgical services, further impacting hospitals' bottom lines. Between 2000 and 2020, the number of ambulatory surgical centers (health care facilities focused on providing same-day surgeries) nationwide increased by 91% from 3,028 to 5,773.¹⁷

REIMBURSEMENT

In addition to base reimbursement rates, many providers receive time-limited rate increases via DAP initiatives for meeting certain performance or quality criteria, which has increased overall Medicaid reimbursement to hospitals. AHCCCS also modified the methodology for calculating indirect GME costs, resulting in an approximate \$100 million annual increase for GME hospitals. Furthermore, as noted previously, hospitals received a net benefit of \$956 million from the recently enacted HEALTHII directed payment program.

Medicare continues to make reductions in payments. As part of the Affordable Care Act (ACA), Congress enacted a number of market basket reductions beginning in 2010, lowering what Medicare pays for services. Beginning April 1, 2013, Medicare imposed a 2% reimbursement reduction due to the Sequestration which, though frozen during the initial portion of the PHE, went back into effect on July 1, 2022 and remains in law. Beginning October 1, 2014, Medicare implemented the hospital-acquired condition (HAC) reduction program. The program applies a one percent payment reduction to hospitals that rank in the bottom 25% of all participating hospitals. In FY2021, 10 Arizona hospitals were penalized due to the HAC reduction program.

In recent years, additional Medicare cuts have been made, in many cases with the intention of trying to create efficiencies in the industry. In December 2017, CMS reduced payments to 340B hospitals by 28% (the 340B program allows certain organizations to register and receive reduced-price outpatient drugs). A U.S. District Court ruled in December 2018 and May 2019 that the

¹⁶ Dentler, Joan. "Outpatient Migration: 6 trends and development." May 21, 2018. <https://www.beckershospitalreview.com/hospital-management-administration/outpatient-migration-6-trends-and-developments.html> (accessed August 21, 2018).

¹⁷ Avanza Healthcare Strategies. "Outpatient Statistical Snapshot." 2018 <https://avanzastrategies.com/outpatient-statistical-snapshot/> & <https://www.ascassociation.org/advancingurgicalcare/asc/numberofascperstate>

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reductions are unlawful and required CMS to end the cuts prospectively. CMS appealed this decision, and in August of 2020 a U.S. Court of Appeals overturned the District Court’s prior decision. Finally, the United States Supreme Court heard this case in July of 2022 and decided against CMS, ruling CMS “acted unlawfully by reducing the reimbursement rates for 340B hospitals.”¹⁸ This ruling signals an end to this years long issue; however, the next steps are for 340B hospitals to be potentially reimbursed for losses incurred while the cuts were in effect.

CONCLUSION

The HFY 2020 and HFY 2021 hospital uncompensated cost and profitability data, and the changes observed year-over-year, continue to provide useful information when evaluating hospital finances and the impact of AHCCCS-related changes. Hospital uncompensated care as a percentage of total expenses decreased slightly to 2.2% in HFY 2021. Net operating margins decreased from 7.4% to 7.3%. Additionally, the percentage of hospitals with a positive operating margin increased from HFY 2020 to HFY 2021, increasing from 73.6% to 77.3%.

It is important to be aware that the most recent data included in this report is from HFY 2021. Since hospitals have different fiscal years, the most recently reported years ended between June 2021 and December 2021.

In recent years, Arizona has seen growth in the number of acute care hospitals located in the Phoenix area. In addition, expansion has occurred in both psychiatric hospitals and rehabilitation hospitals. As noted earlier in the report, many of the new hospitals opened in areas of substantial population growth as a way to meet the health care needs of residents. These are all positive signs that the marketplace continues to be stable and there is continued need for these facilities in the future.

¹⁸ “Supreme Court Rules Unanimously in Favor of AHA, Others in 340B Case”, June 15, 2022. [Supreme Court Rules Unanimously in Favor of AHA, Others in 340B Case](#)

Appendix A

Medicaid Volume <25%

Arizona Orthopedic Surgical Hospital
Arizona Spine & Joint Hospital
Avenir Behavioral Hospital
Banner Baywood Medical Center
Banner Boswell Medical Center
Banner Del E. Webb Medical Center
Banner Goldfield Medical Center
Banner Heart Hospital
Banner Ocotillo Medical Center
Benson Hospital Corp
Chandler Regional Medical Center
Copper Queen Community Hospital
Cornerstone Hospital of Southeast Arizona
Curahealth Tucson / Select Specialty Hospital Northwest Tucson
Dignity Health Arizona General Hospital-Mesa
Dignity Health East Valley Rehabilitation Hospital
Encompass Health East Valley
Encompass Health Northwest Tucson
Encompass Health Scottsdale
Encompass Health Tucson
Encompass Health Valley of the Sun
Havasu Regional Medical Center
HonorHealth Deer Valley Medical Center
HonorHealth Rehabilitation Hospital
HonorHealth Scottsdale Shea Medical Center
HonorHealth Scottsdale Thompson Peak Medical Center
HonorHealth Sonoran Crossing / Sonoran Health and Emergency Center
Kingman Regional Medical Center
La Paz Regional Hospital, Inc.
Mayo Clinic Arizona
Medical Behavioral Hospital
Mercy Gilbert Medical Center
Mountain Valley Regional Rehabilitation Hospital
Mt. Graham Medical Center
Northern Cochise Community Hospital
Northwest Medical Center
OASIS Hospital
Oro Valley Hospital
Phoenix Medical Psychiatric Hospital

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Santa Cruz Valley Regional Hospital
Select Specialty Hospital – Phoenix
Select Specialty Hospital – Phoenix Downtown
The Surgical Hospital of Phoenix
Valley Hospital
Verde Valley Medical Center
Western Arizona Regional Medical Center
White Mountain Regional Medical Center
Wickenburg Community Hospital
Yavapai Regional Medical Center
Yuma Rehabilitation Hospital

Medicaid Volume = 25-50%

Abrazo Arrowhead Campus
Abrazo Arizona Heart Hospital
Abrazo Cave Creek Hospital
Abrazo Central Campus
Abrazo Mesa Hospital
Abrazo Scottsdale Campus
Abrazo Surprise Hospital
Abrazo West Campus
Arizona General Hospital-Laveen
Banner Casa Grande Medical Center
Banner Desert Medical Center
Banner Estrella Medical Center
Banner Gateway Medical Center
Banner Ironwood Medical Center
Banner Payson Medical Center
Banner Rehabilitation Hospital Phoenix
Banner Rehabilitation Hospital West
Banner Thunderbird Medical Center
Canyon Vista Medical Center
Banner - University Medical Center Phoenix
Banner - University Medical Center Tucson
Canyon Vista Medical Center
Carondelet Marana Hospital
Cobre Valley Regional Medical Ctr
Destiny Springs Healthcare
Flagstaff Medical Center
Florence Hospital
Holy Cross Hospital
HonorHealth John C. Lincoln Medical Center
HonorHealth Scottsdale Osborn Medical Center

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St. Joseph's Hospital and Medical Center
St. Joseph's Hospital (Tucson)
St. Joseph's Westgate Medical Center
St. Mary's Hospital
Summit Healthcare Association
Tempe St. Luke's Hospital
The Guidance Center
TMC Geropsychiatric Center Handmaker
Tucson Medical Center
Valley View Medical Center
Windhaven Psychiatric Hospital
Yuma Regional Medical Center

Medicaid Volume > 50%

Aurora Behavioral Healthcare
Aurora Behavioral Healthcare - Tempe
Banner Behavioral Health Hospital
Banner - University Medical Center South
Changepoint Psychiatric
Copper Springs Hospital / Copper Springs Hospital - East
Cornerstone Behavioral Health El Dorado
Destiny Springs Healthcare
Haven Behavioral Hospital of Phoenix
Little Colorado Medical Center
Page Hospital
Palo Verde Behavioral Health
Phoenix Children's Hospital
Sonora Behavioral Health Hospital
St. Luke's Behavioral Hospital
ValleyWise Health Medical Center

Appendix B

Hospitals included in each hospital system are as follows:

Abrazo/Tenet

Abrazo Arizona Heart Hospital
Abrazo Arrowhead Campus
Abrazo Central Campus
Abrazo Cave Creek Hospital
Abrazo Mesa Campus
Abrazo Scottsdale Campus
Abrazo Surprise Hospital
Abrazo West Campus
Carondelet Marana Hospital
Holy Cross Hospital
St. Joseph's Hospital (Tucson)
St. Mary's Hospital

Banner Health

Banner Baywood Medical Center
Banner Behavioral Health Hospital
Banner Boswell Medical Center
Banner Casa Grande Medical Center
Banner Del E. Webb Medical Center
Banner Desert Medical Center
Banner Estrella Medical Center
Banner Gateway Medical Center
Banner Goldfield Medical Center
Banner Heart Hospital
Banner Ironwood Medical Center
Banner Ocotillo Medical Center
Banner Payson Medical Center
Banner Thunderbird Medical Center
Banner - University Medical Center Phoenix
Banner - University Medical Center South
Banner - University Medical Center Tucson
Page Hospital

Community Health Systems

Northwest Medical Center
Northwest Medical Center - Sahuarita
Oro Valley Hospital
Western Arizona Regional Medical Center

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Dignity Health

Arizona General Hospital- Laveen
Chandler Regional Medical Center
Dignity Health Arizona General Hospital- Mesa
Dignity Health East Valley Rehabilitation Hospital
Mercy Gilbert Medical Center
OASIS Hospital
St. Joseph's Hospital and Medical Center
St. Joseph's Westgate Medical Center
Yavapai Regional Medical Center
Yavapai Regional Medical Center - East

Encompass Health

Encompass East Valley Rehabilitation Hospital
Encompass Rehabilitation Hospital of Southern Arizona / of Northwest Tucson
Encompass Rehabilitation Institute of Tucson
Encompass Valley of the Sun Rehabilitation Hospital, LLC
Encompass Scottsdale Rehabilitation Hospital
Yuma Rehabilitation Hospital

HonorHealth

HonorHealth Deer Valley Medical Center
HonorHealth John C. Lincoln Medical Center
HonorHealth Scottsdale Osborn Medical Center
HonorHealth Scottsdale Shea Medical Center
HonorHealth Sonoran Crossing / Sonoran Health and Emergency Center
HonorHealth Scottsdale Thompson Peak Medical Center

Lifepoint Health

Canyon Vista Medical Center
Havasu Regional Medical Center
Valley View Medical Center

Select Medical

Banner Rehabilitation Hospital Phoenix
Banner Rehabilitation Hospital west
Select Specialty Hospital Northwest Tucson
Honorhealth Rehabilitation Hospital
Select Specialty Hospital- Phoenix
Select Specialty Hospital- Phoenix Downtown

Steward Health Care

Florence Hospital, a campus of Mountain Vista Medical Center, LP
Mountain Vista Medical Center
St. Luke's Behavioral Hospital
Tempe St. Luke's Hospital

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Appendix C – See separate attachment

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Appendix D

Total COVID-19 Provider Relief Funds as reported on 2021 Medicare Cost Reports:

<u>Hospitals</u>	<u>Total</u>
ABRAZO ARROWHEAD CAMPUS	\$16,425,524.00
ABRAZO AZ HEART HOSPITAL	\$16,425,524.00
ABRAZO CAVE CREEK HOSPITAL	\$4,004,542.00
ABRAZO CENTRAL CAMPUS	\$18,730,775.00
ABRAZO MESA HOSPITAL	\$18,730,775.00
ABRAZO SCOTTSDALE CAMPUS	\$4,004,542.00
ABRAZO SURPRISE HOSPITAL	\$16,425,524.00
ABRAZO WEST CAMPUS	\$7,071,052.00
ARIZONA GENERAL HOSPITAL	\$572,081.00
AURORA BEHAVIORAL HEALTHCARE-TEMPE	\$573,772.00
AVENIR BEHAVIORAL HOSPITAL	\$36,014.00
BANNER - UNIVERSITY MED CTR PHOENIX	\$26,289,722.00
BANNER - UNIVERSITY MED CTR TUCSON	\$13,276,401.00
BANNER BAYWOOD MEDICAL CTR	\$6,703,511.00
BANNER BEHAVIORIAL HEALTH	\$378,708.00
BANNER CASA GRANDE MEDICAL CENTER	\$3,644,141.00
BANNER DESERT MEDICAL CTR	\$16,843,336.00
BANNER ESTRELLA MEDICAL	\$11,631,964.00
BANNER GATEWAY MEDICAL CTR	\$3,356,527.00
BANNER GOLDFIELD MEDICAL CENTER	\$521,440.00
BANNER HEART HOSPITAL	\$2,758,345.00
BANNER IRONWOOD MEDICAL CENTER	\$3,341,459.00
BANNER OCOTILLO MEDICAL CENTER	\$1,188,873.00
BANNER THUNDERBIRD MEDICAL	\$12,139,824.00
BENSON HOSPITAL	\$1,036,305.00
CANYON VISTA MEDICAL CENTER	\$3,711,270.00
CARONDELET MARANA HOSPITAL	\$3,160,377.00
CHANDLER REGIONAL MED.CTR	\$3,202,239.00
COBRE VALLEY REGIONAL MEDICAL CENTER	\$621,447.00
CURAHEALTH NW PHX / PAM Health Specialty Hosp	\$518,246.00
DIGNITY HEALTH ARIZONA GENERAL HOSPITAL	\$647,818.00
DIGNITY-KINDRED REHAB HOS	\$335,610.00

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FLORENCE HOSPITAL	\$3,173,285.00
HAVASU REG MED CENTER LLC	\$1,504,390.00
HAVEN BHVIORL HOSP OF PHX	\$505,107.00
HOLY CROSS HOSPITAL	\$3,902,722.00
HONORHEALTH REHAB HOSP	\$563,581.00
KINGMAN REGIONAL MED CTR	\$10,562,522.00
KPC PROMISE HOSPITAL OF PHX	\$(423,214.00)
LA PAZ REGIONAL HOSPITAL	\$1,704,012.00
LITTLE COLORADO MED CTR	\$6,293,982.00
MERCY GILBERT MED CENTER	\$2,922,791.00
MOUNTAIN VALLEY REG REHAB	\$905,568.00
MOUNTAIN VISTA MED CTR	\$3,173,285.00
MT. GRAHAM REG MED CTR.	\$5,750,108.00
NORTHERN COCHISE COMMUNITY HOSPITAL	\$788,731.00
ORO VALLEY HOSPITAL	\$764,952.00
PALO VERDE BEHAVIORAL HEALTH	\$84,111.00
PHOENIX CHILDREN'S HOSPITAL	\$10,177,120.00
QUAIL RUN BEHAVIORAL HEALTH	\$786,952.00
REHAB HOSPITAL OF NORTHERN ARIZONA	\$704,000.00
SELECT SPECIALTY HOSP-PHX	\$1,739,864.00
SELECT SPECIALTY-PHX D/T	\$462,781.00
ST JOSEPH'S HOSPITAL-PHX	\$7,231,997.00
ST JOSEPH'S HOSPITAL-TUCSON	\$13,119,007.00
ST LUKE'S BEHAVIORAL HOSP	\$719,676.00
ST MARY'S HOSPITAL	\$3,160,377.00
ST. JOSEPH'S WESTGATE MEDICAL CENTER	\$7,231,997.00
SUMMIT HEALTHCARE REG MED	\$9,229,820.00
TEMPE ST. LUKE'S HOSPITAL	\$11,212,882.00
THE GUIDANCE CENTER, INC.	\$100,397.00
VALLEY HOSPITAL	\$84,630.00
VALLEY VIEW MEDICAL CTR	\$2,922,966.00
VALLEYWISE HEALTH MEDICAL	\$18,226,593.00
WHITE MNTN REG MED CTR	\$3,534,494.00
WICKENBURG COMMUNITY HOSP	\$5,513,967.00
YAVAPAI REG MED CENTER	\$170,833.00
YUMA REGIONAL MED CENTER	\$20,830,370.00