

October 2, 2023

The Honorable Warren Petersen
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007

The Honorable Ben Toma
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

The Honorable John Kavanagh
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007

The Honorable David Livingston
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

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

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

Dear President Petersen, Speaker Toma, Senator Kavanagh, Representative Livingston, Mr. Stavneak,
and Ms. Brown:

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 Kristen Challacombe, Deputy Director, at Kristen.Challacombe@azahcccs.gov
or (602) 417-4576 if you have any questions about this report.

Sincerely,

A handwritten signature in black ink, appearing to read 'Carmen Heredia', written in a cursive style.

Carmen Heredia
Cabinet Executive Officer
And Executive Deputy Director

cc: Zaida Dedolph Piccoro, Health Policy Advisor, Office of the Governor



**Report on Uncompensated Hospital Costs and
Hospital Profitability**

October 2023

**Cabinet Executive Officer and Executive Deputy Director,
Carmen Heredia**

2023 Report on Uncompensated Hospital Costs and Hospital Affordability

EXECUTIVE SUMMARY

In Hospital Fiscal Year (HFY) 2017, hospitals' net operating profit grew to \$919 million and has exceeded \$1.1 billion since HFY 2018. 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 net operating due to the funding from the federal COVID-19 provider relief fund and the newly created directed payment program. HFY 2021 continued this upward trend with a net operating profit of \$1.7 billion. In HFY 2022, net operating profit decreased to approximately \$1.1 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. In HFY2022 all hospital types experienced decreases in both net operating margins and total margins, with the long term care hospitals having the largest decreases, and the short term specialty hospitals having the smallest decreases.

In HFY 2022, the hospital financial reports will reflect two significant circumstances that have a direct impact on their financial status. The COVID-19 Public Health Emergency (PHE) emerged in March 2020 and continued through calendar year 2022. A majority of the hospitals report on a calendar year resulting in 9 months of COVID-19 impacts to their financial position in HFY 2020 and a full 12 months of COVID-19 impact in HFY 2021 and HFY 2022. In addition, the Arizona Legislature created a new hospital assessment in March 2020, to be deposited into the newly created Health Care Investment Fund (HCIF), 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 2022 net payment totaled approximately \$924.1 million.

BACKGROUND

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

AHCCCS uncompensated care; hospital assessment; reports

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

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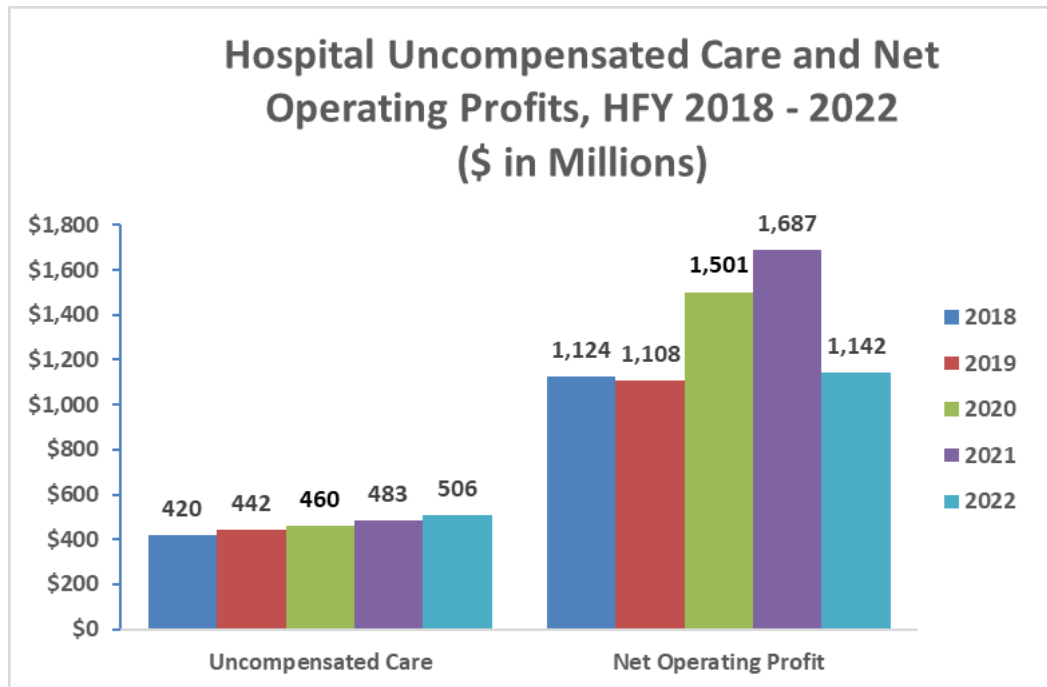
on the change in uncompensated hospital costs experienced by hospitals in this state and hospital profitability during the previous fiscal year.

Hospital-reported data shows that total uncompensated care grew by \$23.0 million from Hospital Fiscal Year (HFY) 2021 to HFY 2022. HFY 2022 total uncompensated care was \$505.8 million; while the average uncompensated care costs for HFY 2022 were \$4.8 million. Uncompensated care as a percentage of total expenses increased slightly from 2.2% during HFY 2021 to 2.5% in HFY 2022.

In HFY 2022 total net hospital profitability exceeded \$1 billion for the fifth straight year; however, it decreased from HFY 2021 by approximately \$545 million.

	Hospital Profitability and Uncompensated Care					
	HFY 2018-2022 (\$ in Millions)					
	2018	2019	2020*	2021	2022	2021-2022 Change
Total Uncompensated Care	\$419.7	\$441.8	\$460.0	\$482.8	\$505.8	\$23.0
Average Uncompensated Care Costs	\$4.3	\$4.2	\$4.2	\$4.4	\$4.8	\$0.4
Uncompensated Care Costs as a % of Total Expenses	2.5%	2.5%	2.5%	2.2%	2.5%	10.2%
Total Net Operating Profitability	\$1,124.4	\$1,108.0	\$1,501.2	\$1,687.1	\$1,142.1	(\$545.0)
Average Operating Profitability	\$11.5	\$10.8	\$13.6	\$15.3	\$10.9	(\$4.4)
Average Operating Margin	6.3%	5.8%	7.4%	7.3%	5.3%	(27.8)%
Hospitals with a Positive Net Operating Margin	73.5%	69.9%	73.6%	77.3%	68.6%	(-11.3)%
Average Total Income Margin	7.0%	6.9%	9.4%	10.1%	6.0%	(40.5)%
Average Occupancy Rate	65.5%	63.2%	61.9%	67.1%	66.3%	(1.2)%

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AHCCCS has implemented a number of initiatives that have benefited hospital finances over the recent years:

- 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 were 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 .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 qualify for a DAP between 2.5%-4.5%. Critical access hospitals were eligible for a minimum DAP of 10.0%.
- Effective October 1, 2021, all acute care hospitals excluding critical access hospitals could qualify for a DAP up to 3.0%. Critical access hospitals were eligible for a DAP up to 10.5%. Psychiatric, rehabilitation and long term acute care hospitals were eligible for a DAP up to 5.0%.
- 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.

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- 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 program payment 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. For FFY 2022 the net payment was \$924.1 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 2020 reflected one quarterly HEALTHII payment in HFY 2020. The full impact of this additional reimbursement is seen in HFY 2021 and 2022 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 (HIS) 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. Three new hospitals were excluded from this report in HFY 2022 (Via Linda Behavioral Hospital, East Valley ER and Hospital, and Reunion Rehab Hospital). In addition, several hospitals did not submit UARs by August 23, 2023, the cut-off date established by AHCCCS in order to complete this report timely for HFY 2022 (Florence Hospital, Mount Vista Medical Center, St. Luke's Behavioral Hospital, Tempe St. Luke's Hospital, Changepoint Psychiatric, Cobalt Rehabilitation Hospital, and KPC Promise Hospital).

The most recent complete year for which UAR data was available was HFY 2022. 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:

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

The cost-to-charge ratio averaged 20.9% in HFY 2021 and 20.3% in HFY 2022. That is, for every one dollar of hospital charges, hospital costs averaged approximately 20.3 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.

1. Uncompensated Care Costs

AHCCCS found a wide range of uncompensated care costs reported by hospitals, with such costs across all hospitals reaching \$483 million in HFY 2021 and increasing to \$506 million in HFY 2022.

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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>2021</u>	<u>2022</u>	<u>Percentage Change</u>
Total Uncompensated Care Costs	\$482.8 Million	\$505.8 Million	4.8%
Statewide Average Uncompensated Care Costs Per Hospital	\$4.4 Million	\$4.8 Million	9.8%
Lowest Uncompensated Care Costs *	\$(46,529)**	\$(142,635)**	
Highest Uncompensated Care Costs	\$61.7 Million	\$106.4 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 increased by 10.0% during this period as shown in Table 2.

Table 2—Percent of Uncompensated Care, All Hospitals

	<u>2021</u>	<u>2022</u>	<u>Percentage Change</u>
Average % of Uncompensated Care	2.24%	2.46%	10.0%
Lowest % of Uncompensated Care Costs	(0.28)%*	(1.16)%*	
Highest % of Uncompensated Care	8.03%	12.74%	

* 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 decrease by \$545 million, and the percentage of hospitals with a profit decreased from 77.3% in HFY 2021 to 68.6% in HFY 2022.

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Table 3—Operating Profitability, All Hospitals

	<u>2021</u>	<u>2022</u>	Percentage Change
Total Profitability	\$1,687.1 Million	\$1,142 Million	(43.7)%
Statewide Average Profitability	\$15.3 Million	\$10.9 Million	(28.9)%
Lowest Profitability/(Highest Loss)	(\$159.5) Million	(\$215.8) Million	
Highest Profitability	\$254.3 Million	\$315.4 Million	
Percent of Hospitals with a Profit	77.3%	68.6%	

4. Net Operating Margin

Net operating margin, defined as profit/loss as a percentage of total revenue, averaged 7.3% across all hospitals in HFY 2021 and 5.3% in HFY 2022, 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, 77.3% in HFY 2021 and 68.3% of hospitals in HFY 2022 had a positive net operating margin.

Table 4—Net Operating Margin, All Hospitals

	<u>2021</u>	<u>2022</u>	Percentage Change
Average Net Operating Margin	7.3%	5.3%	(27.7)%
Lowest Net Operating Margin*	(100.3)%	(103.1)%	
Highest Net Operating Margin	56.8%	34.2%	
Hospitals with Positive Net Margin	77.3%	67.6%	

*Excludes hospitals which have been open less than 2 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 10.1% across all hospitals in HFY 2021, decreasing to 6.0% in HFY 2022, as shown in Table 5.

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Table 5—Total Margin, All Hospitals

	<u>2021</u>	<u>2022</u>	<u>Percentage Change</u>
Average Total Margin	10.1%	6.0%	(41.6)%
Lowest Total Margin *	(72.5)%	(103.1)%	
Highest Total Margin	56.8%	31.1%	
Hospitals with Positive Total Margin	79.1%	61.9%	

*Excludes hospitals which have been open less than 2 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 a decrease from HFY 2021 to HFY 2022, with average occupancy rates of 67.1% and 66.3%, respectively.

Table 6—Occupancy Rates, All Hospitals

	<u>2021</u>	<u>2022</u>	<u>Percentage Change</u>
Average Occupancy Rate	67.1%	66.3%	(1.19)%
Lowest Occupancy Rate	9.9%	9.0%	
Highest Occupancy Rate	97.3%	100.0%	

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 65 in HFY 2021 and 68 in HFY 2022. Fitch Ratings reports a national average accounts receivable of 44.6 days for not-for-profit health systems in FY 2020.¹

Table 7—Days in Accounts Receivable, All Hospitals

	<u>2021</u>	<u>2022</u>	<u>Percentage Change</u>
Average Days in Accounts Receivable	65	68	(4.0)%
Fewest Days	0	0	
Most Days *	260	300	

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

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

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, 2023. For the 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 0.1% to 2.8% in HFY 2022. This was unchanged from HFY 2021. Short-term specialty and long-term hospitals experienced rates of less than 1.0% in both years. Only one peer type, general acute care, experienced an increase in uncompensated care from HFY 2021 to HFY 2022 (from 2.3% to 2.5%), while rehabilitation hospitals saw a decrease from 1.4% to 1.1%.

There continues to be a variance in net operating profit (as well as total profit) between the different peer groups. In HFY 2021, the range in net operating margin was from 3.1% (long term) to 16.0% (short-term specialty). In HFY 2022, the range in net operating margin was (6.8%) (long term) to 12.8% (short-term specialty). Short-term specialty hospitals remain the peer group with the highest net operating margin; long-term acute care hospitals remain the group with the lowest net operating margin.

The number of long-term acute care hospitals has declined from ten at the beginning of 2015 to six at the end of 2017 and has maintained this level through 2022.² While Arizona has lost long-term acute care hospitals, the number of psychiatric hospitals and rehabilitation hospitals has grown. Five new psychiatric hospitals have opened since HFY 2019. Copper Springs East, Phoenix Medical Psychiatric Hospital, Via Linda Behavioral Health Hospital and Banner Behavioral Health Hospital are located in Maricopa County, while Medical Behavioral Hospital of Northern Arizona has opened in Yavapai County. The Geropsychiatric Center at Tucson Medical Center closed in 2022.

² PAM Health Specialty Hospital was closed in December 2022 and KPC Promise Hospital is not included in the 2022 data due to untimely submission. The calculations of this report have four hospitals listed as long-term acute care.

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Three new rehabilitation hospitals have also opened since HFY 2019.³ Banner Rehabilitation Hospital East in Mesa opened in 2022.

³ Cobalt Rehabilitation Hospital is not included in the 2022 data due to untimely submission. The calculations of this report have 13 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 2022)	12	4	13	18	5	57
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%
2022 Uniform Accounting Report						
Occupancy Rate	30.2%	70.7%	60.1%	79.4%	36.9%	66.5%
Total Gains, Revenues, and Other Support	\$ 531,165,142	\$ 77,647,393	\$ 276,143,977	\$ 432,702,867	\$ 356,216,208	\$ 19,994,203,677
Total Expenses	\$ 505,843,847	\$ 82,960,901	\$ 246,797,191	\$ 411,777,402	\$ 310,470,260	\$ 18,968,119,117
Net Operating Profit(Loss)	\$ 25,321,296	\$ (5,313,508)	\$ 29,346,786	\$ 20,925,465	\$ 45,745,948	\$ 1,026,084,560
Net Operating Margin	4.8%	-6.8%	10.6%	4.8%	12.8%	5.1%
Total Income Margin	5.1%	-5.7%	9.2%	4.6%	12.9%	5.9%
Days in Accounts Receivable	50	77	63	92	50	70
Cost to Charge Ratio	33.1%	17.3%	42.4%	40.4%	18.1%	19.8%
Cost of Bad Debts	\$ 11,063,566	\$ 54,583	\$ 2,210,266	\$ 3,511,253	\$ 529,690	\$ 171,227,097
Charity Cost	\$ 3,020,919	\$ -	\$ 583,710	\$ 1,791,223	\$ 887,184	\$ 310,948,742
Uncompensated Care Cost	\$ 14,084,485	\$ 54,583	\$ 2,793,976	\$ 5,302,476	\$ 1,416,875	\$ 482,175,839
Uncompensated Care Cost as a % of Total Expenses	2.8%	0.1%	1.1%	1.3%	0.5%	2.5%
CHANGE: 2021 to 2022						
Average Occupancy Percentage	-14.4%	-5.9%	-11.6%	-1.7%	-1.0%	-0.1%
Total Gains, Revenues, and Other Support	\$ 4,286,526	\$ (3,783,720)	\$ 20,610,653	\$ (49,957,597)	\$ (22,919,528)	\$ (1,566,047,325)
Total Expenses	\$ 35,067,839	\$ 4,030,216	\$ 28,371,914	\$ (13,643,343)	\$ (8,128,668)	\$ (1,118,485,703)
Net Operating Profit(Loss)	\$ (30,781,313)	\$ (7,813,936)	\$ (7,761,261)	\$ (36,314,255)	\$ (14,790,860)	\$ (447,561,622)
Net Operating Margin	-55.2%	-322.9%	-26.8%	-59.2%	-19.6%	-24.9%
Total Margin	-67.8%	-167.5%	-20.2%	-61.5%	-16.8%	-39.6%
Average Days in Accounts Receivable	-3	2	5	9	7	5
Cost to Charge Ratio	1.0%	-3.0%	-8.4%	7.4%	2.8%	-3.3%
Cost of Bad Debts	\$ 560,709	\$ (9,072)	\$ (206,139)	\$ (217,787)	\$ (24,617)	\$ 4,484,839
Charity Cost	\$ 205,369	\$ -	\$ (117,563)	\$ (155,185)	\$ (137,493)	\$ 18,662,456
Uncompensated Care Cost	\$ 766,078	\$ (9,072)	\$ (323,703)	\$ (372,972)	\$ (162,110)	\$ 23,147,296
Uncompensated Care Cost as % of Total Expenses	-1.6%	-18.4%	-20.7%	-3.5%	-7.9%	11.2%

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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 2022, approximately 71% of hospitals were located in urban areas, and about 83% of total gains, revenues, and other support went to urban hospitals. From HFY 2021 to HFY 2022, urban hospitals’ uncompensated care increased from 2.1% to 2.4%. Rural hospitals uncompensated care decreased from 2.9% to 2.7% from HFY 2021 to HFY 2022.

As a whole, in HFY 2022 rural hospitals averaged higher net operating margins but lower total income margins than urban hospitals. Rural hospitals had a net operating margin of 5.8% compared to 5.2% for urban hospitals. Total income margins were 2.9% for rural hospitals and 6.6% for urban hospitals.

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 decreased from 10.6% net operating margin in HFY 2021 to 4.8% net operating margin in HFY 2022; total income margin decreased from 15.9% in HFY 2021 to 5.1% in HFY 2022.

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.⁴ Being a non-profit hospital does not mean that a hospital cannot make a profit. As measured by total income margin, the most profitable hospitals in both HFY 2021 and HFY 2022 were the non-profit hospitals, as a group.

In HFY 2019, Mayo Clinic had the largest net operating profit of \$161 million, and again in HFY2022 at \$315 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 \$1.3 billion in HFY 2021 but saw a decrease of 34% in net operating profit. This resulted in a net operating profit of approximately \$891 million in HFY 2022. In comparison, for-profit hospitals' net operating profit was approximately \$346 million and \$251 million in HFYs 2021 and 2022, respectively.

⁴ 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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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 83.5% 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%.⁵

The percentage of uncompensated care in HFY 2022 was lowest at hospitals with Medicaid volume greater than 50%, decreasing from 3.7% in HFY 2021 to 1.4% in HFY 2022. The same trend was seen for hospitals with the middle range of Medicaid volume, 25% to 50%. However, hospitals with Medicaid volume less than 25% showed the reverse trend, with the lowest uncompensated care percentage at 1.5%, in HFY 2021 but the highest in HFY 2022 at 2.9%. 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 was a correlation between Medicaid volume and net operating margin in HFYs 2020 and 2021. 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). However, this does not hold in HFY 2022. As a group, hospitals with Medicaid volumes less than 25% had the lowest net operating margin at 4.0%, while those with Medicaid volumes greater than 50% had the highest net operating margin at 18.0%. It should be noted that hospitals with Medicaid volume greater than 50%, once again, had the only year-to-year increase of the three categories.

⁵ 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 2022)	78	31	58	51	14	44	50
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%
2022 Uniform Accounting Report							
Occupancy Rate	69.2%	50.3%	58.2%	69.9%	73.2%	68.0%	62.8%
Total Gains, Revenues, and Other Support	\$ 17,932,224,102	\$ 3,735,855,162	\$ 3,569,255,003	\$ 18,098,824,261	\$ 1,456,642,232	\$ 11,178,839,130	\$ 9,024,757,917
Total Expenses	\$ 17,005,018,857	\$ 3,520,949,860	\$ 3,318,445,064	\$ 17,207,523,654	\$ 1,193,952,494	\$ 10,664,224,068	\$ 8,662,379,637
Net Operating Profit(Loss)	\$ 927,205,245	\$ 214,905,302	\$ 250,809,939	\$ 891,300,607	\$ 262,689,739	\$ 514,615,062	\$ 362,378,279
Net Operating Margin	5.2%	5.8%	7.0%	4.9%	18.0%	4.6%	4.0%
Total Income Margin	6.6%	2.9%	5.5%	6.1%	25.2%	4.6%	4.4%
Days in Accounts Receivable	73	54	70	69	74	56	85
Cost to Charge Ratio	19.9%	22.6%	12.8%	22.9%	26.2%	20.3%	19.8%
Cost of Bad Debts	\$ 126,685,784	\$ 61,910,672	\$ 28,920,089	\$ 159,676,367	\$ 11,827,065	\$ 94,127,564	\$ 82,641,827
Charity Cost	\$ 283,819,280	\$ 33,412,498	\$ 12,512,846	\$ 304,718,932	\$ 4,367,508	\$ 144,429,610	\$ 168,434,661
Uncompensated Care Cost	\$ 410,505,064	\$ 95,323,170	\$ 41,432,935	\$ 464,395,298	\$ 16,194,572	\$ 238,557,174	\$ 251,076,487
Uncompensated Care Cost as a % of Total Expenses	2.4%	2.7%	1.2%	2.7%	1.4%	2.2%	2.9%
CHANGE: 2021 to 2022							
Average Occupancy Percentage	-1.3%	-0.5%	-5.6%	0.5%	2.1%	0.3%	-1.9%
Total Gains, Revenues, and Other Support	\$ (1,473,903,327)	\$ (143,907,665)	\$ (305,018,385)	\$ (1,312,792,607)	\$ (837,586,337)	\$ (1,260,230,117)	\$ 472,165,477
Total Expenses	\$ (1,121,521,333)	\$ 48,733,588	\$ (209,473,911)	\$ (863,313,834)	\$ (940,549,486)	\$ (917,282,391)	\$ 779,631,613
Net Operating Profit(Loss)	\$ (352,381,994)	\$ (192,641,253)	\$ (95,544,474)	\$ (449,478,773)	\$ 102,963,149	\$ (342,947,725)	\$ (307,466,137)
Net Operating Margin	-21.6%	-45.2%	-21.4%	-28.7%	159.0%	-33.2%	-48.7%
Total Margin	-25.1%	-81.9%	-28.2%	-42.4%	53.5%	-50.3%	-54.6%
Average Days in Accounts Receivable	5	3	10	3	(9)	-	13
Cost to Charge Ratio	-4.4%	5.1%	-5.2%	-2.2%	-7.3%	0.5%	-4.1%
Cost of Bad Debts	\$ 4,514,567	\$ 73,366	\$ (242,975)	\$ 4,830,907	\$ (7,740,288)	\$ (7,407,968)	\$ 19,736,189
Charity Cost	\$ 25,181,783	\$ (6,724,199)	\$ (5,462,641)	\$ 23,920,225	\$ (54,948,295)	\$ (38,861,602)	\$ 112,267,480
Uncompensated Care Cost	\$ 29,696,350	\$ (6,650,833)	\$ (5,705,616)	\$ 28,751,133	\$ (62,688,583)	\$ (46,269,570)	\$ 132,003,669
Uncompensated Care Cost as % of Total Expenses	14.9%	-7.8%	-6.6%	11.9%	-63.3%	-9.0%	91.9%

Note: the number of hospitals in the Medicaid Volume section excludes Avenir Behavioral Center, which did not provide an HFY 2022 Medicare Cost Report. For HFY 2021 their Medicaid volume was < 25%.

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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, 2023, regardless of whether they were in that hospital system in both 2021 and 2022.

In HFY 2022, hospital system operating profits ranged from \$0.6 million for the Select Medical system rehabilitation hospitals, to \$278.3 million for the Banner Health system hospitals. The Select Medical system includes Banner Rehabilitation Hospitals and HonorHealth Rehabilitation Hospitals, which are joint venture partnerships. Steward Health Care did not provide the UAR required for inclusion in this report.

Uncompensated care ranged widely between health systems, from a high of 2.9% to a low of 0.4% in HFY 2021 and from a high of 3.3% to a low of 0.4% in HFY 2022. Community Health Systems had the lowest uncompensated care cost as a percentage of total expenses for both HFY 2021 and HFY 2022.

Banner Health, the state's largest health system, includes 18 hospitals and had annual hospital patient revenues of approximately \$6.8 billion in HFY 2021 and \$6.7 billion in HFY 2022. The next largest health systems had annual net patient revenues of approximately \$3.3 billion (Dignity Health) and \$2.1 billion (HonorHealth) in HFY 2022. Uncompensated care was 1.9% for Banner Health, 3.3% for Dignity Health, and 2.0% for HonorHealth in HFY 2022. The Encompass Health system consists of rehabilitation hospitals; consistent with its peer group, the system had a low level of uncompensated care of 1.7% in HFY 2022, as did the Select Medical system at 0.7%.

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
Number of Hospitals which Submitted a UAR (HFY 2022)	11	18	5	10	6	6	3	7
2021 Uniform Accounting Report								
Occupancy Rate	56.2%	75.6%	51.4%	74.3%	64.6%	64.9%	47.2%	74.5%
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
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
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
Net Operating Margin	8.0%	5.8%	12.4%	7.9%	17.0%	6.1%	19.8%	5.4%
Total Income Margin	6.1%	5.8%	11.9%	10.2%	11.1%	10.8%	16.9%	8.9%
Days in Accounts Receivable	67	50	62	62	58	60	18	67
Cost to Charge Ratio	10.5%	21.8%	9.5%	21.5%	53.5%	18.3%	14.3%	24.0%
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
Charity Cost	\$ 8,527,028	\$ 109,272,585	\$ 61,661	\$ 54,024,712	\$ 128,255	\$ 35,740,909	\$ 357,127	\$ 562,208
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
Uncompensated Care Cost as a % of Total Expenses	1.3%	2.2%	0.4%	2.9%	1.6%	2.4%	1.1%	0.8%
2022 Uniform Accounting Report								
Occupancy Rate	49.5%	71.5%	50.4%	80.4%	47.3%	66.3%	38.2%	69.1%
Total Revenue, Gains, and Other Support	\$ 1,405,608,300	\$ 6,679,371,069	\$ 625,903,506	\$ 3,339,961,027	\$ 104,293,178	\$ 2,130,331,093	\$ 451,620,811	\$ 160,334,843
Total Expenses	\$ 1,295,708,300	\$ 6,401,063,311	\$ 618,413,850	\$ 3,266,457,784	\$ 94,213,600	\$ 2,066,011,435	\$ 389,947,250	\$ 161,042,548
Net Operating Profit(Loss)	\$ 109,900,000	\$ 278,307,758	\$ 7,489,656	\$ 73,503,243	\$ 10,079,578	\$ 64,319,658	\$ 61,673,561	\$ 637,423
Net Operating Margin	7.8%	4.2%	1.2%	2.2%	9.7%	3.0%	13.7%	0.4%
Total Income Margin	6.0%	4.2%	-0.9%	2.9%	5.6%	3.0%	11.2%	0.2%
Days in Accounts Receivable	70	46	71	66	76	69	49	65
Cost to Charge Ratio	9.7%	23.4%	10.3%	21.9%	57.8%	15.8%	15.3%	23.4%
Cost of Bad Debts	\$ 8,308,580	\$ 24,538,048	\$ 2,652,405	\$ 53,158,833	\$ 1,463,725	\$ 10,788,088	\$ 4,823,146	\$ 662,571
Charity Cost	\$ 7,064,764	\$ 95,965,379	\$ 68,120	\$ 49,819,418	\$ 92,820	\$ 30,560,679	\$ 18,795	\$ 426,530
Uncompensated Care Cost	\$ 15,373,344	\$ 120,503,427	\$ 2,720,526	\$ 106,393,119	\$ 1,563,286	\$ 40,933,759	\$ 4,847,011	\$ 1,146,719
Uncompensated Care Cost as a % of Total Expenses	1.2%	1.9%	0.4%	3.3%	1.7%	2.0%	1.2%	0.7%
CHANGE: 2021 to 2022								
Average Occupancy Percentage	-11.9%	-5.4%	-1.9%	8.1%	-26.8%	2.3%	-19.1%	-7.2%
Total Revenue, Gains, and Other Support	\$ (42,507,866)	\$ (73,334,013)	\$ 39,181,676	\$ 197,041,296	\$ (35,210,824)	\$ (569,742,104)	\$ (12,471,306)	\$ 19,269,442
Total Expenses	\$ (36,807,866)	\$ 37,313,351	\$ 104,181,702	\$ 370,355,296	\$ (21,611,948)	\$ (469,410,179)	\$ 17,824,765	\$ 27,610,116
Total Net Operating Profit(Loss)	\$ (5,700,000)	\$ (110,647,364)	\$ (65,000,026)	\$ (173,314,000)	\$ (13,598,876)	\$ (100,331,926)	\$ (30,296,071)	\$ (6,995,546)
Net Operating Margin	-2.1%	-27.7%	-90.3%	-72.0%	-43.1%	-50.5%	-31.1%	-92.7%
Total Margin	-1.9%	-27.6%	-107.3%	-72.0%	-49.8%	-72.0%	-33.7%	-97.7%
Average Days in Accounts Receivable	3	(4)	9	4	18	9	31	(2)
Cost to Charge Ratio	-7.0%	7.2%	8.2%	2.3%	8.0%	-13.6%	7.2%	-2.4%
Cost of Bad Debts	\$ (350,278)	\$ (4,112,625)	\$ 640,337	\$ 23,865,470	\$ (312,802)	\$ (14,063,359)	\$ 1,185,593	\$ 99,553
Charity Cost	\$ (1,462,264)	\$ (13,307,206)	\$ 6,459	\$ (4,205,294)	\$ (35,435)	\$ (5,180,230)	\$ (338,332)	\$ (135,679)
Uncompensated Care Cost	\$ (1,812,541)	\$ (17,419,831)	\$ 646,796	\$ 23,075,044	\$ (341,495)	\$ (19,658,597)	\$ 852,331	\$ 21,493
Uncompensated Care Cost as % of Total Expenses	-8.0%	-13.1%	9.1%	13.2%	0.9%	-17.1%	15.8%	-15.6%

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 Public Health Emergency (PHE) that began in early 2020 from the outbreak of COVID-19 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. The latest data used in this report is from HFY 2022.

Admission rates at hospitals decreased dramatically at the beginning of the Public Health Emergency (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”.⁶ While average occupancy rate was 61.9% in HFY 2020, it rebounded in HFY 2021 to 67.1%, a 5.2% year-to-year increase. In HFY 2022, the average occupancy came in similar to the prior year at 66.3%.

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 in 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

⁶ 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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awarded; however, they provide the public insight on the support each hospital received from this program. While not all received this additional funding, those which did received an estimated total of \$495 million in HFY 2020, \$377 million in HFY2021 and \$106 million in HFY 2022. Banner University Medical Center - Phoenix was the largest recipient with an estimated \$26.3 million in PHE funds received in HFY 2021. In HFY2022, the largest recipient was Valleywise Health Medical Center, with \$44 million. 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 has been able to leverage the increased federal medical assistance percentage (FMAP) due to the PHE to increase specific supplemental payments. 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 2021.⁷ In HFA 2022, these payments remained at the HFA 2021 levels. In addition, a number of other supplemental payments to hospitals like the graduate medical education (GME) and disproportionate share hospital (DSH) program were able to lower the non-federal share for funding partners due to the PHE FMAP enhancements.

Hospital Openings and Closures

Abrazo Mesa was closed in April of 2022, so it is not included in this report; likewise, for the Geropsychiatric Center at Tucson Medical Center, which closed in late 2022 and Santa Cruz Valley Regional Hospital, which closed in June 2022. Medical Behavioral Hospital of Northern Arizona closed in late 2022 but submitted a UAR so it has been included in this report.

Comparatively, two new hospitals have been added to the report since 2021: Banner Rehabilitation Hospital East and the Northwest Medical Center-Houghton. New hospitals not included in this report because the data is not available: East Valley ER & Hospital – opened in October 2022, Reunion Rehabilitation Hospital (February 2022), Via Linda Behavioral Hospital in March 2022.

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 prior to 2022, only two were rural hospitals (Florence Hospital and Medical Behavioral Hospital of Northern Arizona), and the latter closed in 2022. 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.⁸ It has also been reported

⁷ 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>

⁸ 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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over 18% of Arizona rural hospitals are at a current risk of closure.⁹ 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. However, Abrazo-Mesa closed in 2022. 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.^{10 11} They offer a small number of services, such as surgical suites, a labor and delivery room, or 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.¹² In Arizona, at least 20 such facilities have opened since 2010.

⁹ 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

¹⁰ 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>

¹¹ 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/>

¹² 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/>

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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, in HFY 2022 hospitals received a net benefit of \$924 million from the HEALTHII directed payment program.

Medicare also 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, ten 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 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"¹³. 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. In the 2024 Outpatient Prospective System (OPPS) Proposed Rule, CMS reinstated rates to the previous default. CMS also released a separate 2024 OPPS Proposed Rule providing a remedy for the reduced 340B payments 2018 through September 2022¹⁴.

CONCLUSION

The HFY 2021 and HFY 2022 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

¹³ "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](#)

¹⁴ <https://www.hklaw.com/en/insights/publications/2023/07/cms-releases-cy-2024-opps-and-asc-proposed-rule>

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percentage of total expenses increased to 2.5% in HFY 2022. Net operating margins decreased from 7.3% to 5.3%. Additionally, the percentage of hospitals with a positive operating margin decreased from HFY 2021 to HFY 2022, from 77.3% to 68.6%.

It is important to be aware that the most recent data included in this report is from HFY 2022. Since hospitals have different fiscal years, the most recently reported years ended between June 2022 and December 2022.

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.

Appendix A

Medicaid Volume <25%

Arizona Orthopedic Surgical Hospital
Arizona Spine and Joint Hospital
Banner Baywood Medical Center
Banner Boswell Medical Center
Banner Del E. Webb Medical Center
Banner Goldfield Medical Center
Banner Heart Hospital
Banner Payson Medical Center
Banner Rehabilitation Hospital East
Banner Rehabilitation Hospital Phoenix
Banner Rehabilitation Hospital West
Benson Hospital
Cancer Treatment Centers of America - Western Region
Chandler Regional Medical Center
Cobalt Rehabilitation Hospital (formerly PAM Health Rehabilitation Hospital)
Copper Queen Hospital
Cornerstone Hospital of Southeast Arizona
Dignity Health Arizona General Hospital - Mesa
Dignity Health East Valley Rehabilitation Hospital
Dignity Health Mercy Gilbert Medical Center
East Valley ER & Hospital
Flagstaff Medical Center
Encompass Health East Valley (formerly HealthSouth)
Encompass Health Northwest Tucson (formerly HealthSouth)
Encompass Health Tucson (formerly HealthSouth)
Encompass Health Valley of the Sun (formerly HealthSouth)
Havasu Regional Medical Center
Honor Health Deer Valley Medical Center
HonorHealth Rehabilitation Hospital
HonorHealth Scottsdale Osborn Medical Center
HonorHealth Scottsdale Shea Medical Center
HonorHealth Scottsdale Thompson Peak Medical Center
HonorHealth Sonoran Crossing
Kingman Regional Medical Center
La Paz Regional Hospital
Mayo Clinic Hospital – Arizona
Mountain Valley Regional Rehabilitation Hospital

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Northern Cochise Community Hospital
Northwest Medical Center
Oro Valley Hospital
Select Specialty Hospital – Phoenix Downtown
Select Specialty Hospital Tucson Northwest / Curahealth Tucson
Southwest Orthopedic and Spine Hospital dba OASIS Hospital
Steward Florence Medical Hospital
Steward Mountain Vista Medical Center
The CORE Institute Specialty 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 (Encompass & Yuma Regional)

Medicaid Volume = 25%-50%

Abrazo Arizona Heart Hospital
Abrazo Arrowhead Campus
Abrazo Cave Creek Hospital
Abrazo Central Campus
Abrazo Scottsdale Campus
Abrazo Surprise Hospital
Abrazo West Campus
Banner - University Medical Center Phoenix
Banner - University Medical Center South
Banner - University Medical Center Tucson
Banner Casa Grande Medical Center
Banner Desert Medical Center
Banner Estrella Medical Center
Banner Gateway Medical Center
Banner Ironwood Medical Center
Banner Ocotillo Medical Center
Banner Thunderbird Medical Center
Canyon Vista Medical Center
Carondelet Holy Cross Hospital
Carondelet Marana Hospital
Carondelet St. Joseph's Hospital Tucson
Carondelet St. Mary's Hospital
Cobre Valley Regional Medical Center

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Copper Springs Hospital
Copper Springs Hospital East
Dignity Health Arizona General Hospital - Laveen
Dignity St. Joseph's Hospital and Medical Center
Encompass Health Scottsdale (formerly HealthSouth)
HonorHealth John C. Lincoln Medical Center
Medical Behavioral Hospital
Mt. Graham Regional Medical Center
Northwest Medical Center - Houghton
Northwest Medical Center - Sahuarita
Oasis Behavioral Health Hospital
Phoenix Medical Psychiatric Hospital
Rehabilitation Hospital of Northern Arizona
Select Specialty Hospital – Phoenix
St. Joseph's Westgate Medical Center
Steward Tempe St. Luke's Hospital
Summit Healthcare Association
The Guidance Center
Tucson Medical Center
Valley View Medical Center
Windhaven Psychiatric Hospital
Yuma Regional Medical Center (Encompass)

Medicaid Volume > 50%

Aurora Behavioral Healthcare
Aurora Behavioral Healthcare - Tempe
Banner Behavioral Health Hospital
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
Quail Run Behavioral Health
Sonora Behavioral Health Hospital
Steward St. Luke's Behavioral Hospital
Valley Hospital
Valleywise (formerly Maricopa Medical Center)

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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 (Closed in 2022)
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 - Houghton
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 East
Banner Rehabilitation Hospital West
HonorHealth Rehabilitation Hospital
Select Specialty Hospital Northwest Tucson
Select Specialty Hospital- Phoenix
Select Specialty Hospital- Phoenix Downtown

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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 2022 Medicare Cost Reports:

Hospitals	Total
ABRAZO ARROWHEAD CAMPUS	(\$7,149,791.00)
ABRAZO CENTRAL CAMPUS	\$3,089,088.00
ABRAZO SCOTTSDALE CAMPUS	\$749,635.00
ABRAZO WEST CAMPUS	(\$464,182.00)
BANNER UNIVERSITY MEDICAL CTR PHOENIX	\$8,548,116.00
BANNER UNIVERSITY MEDICAL CTR SOUTH	\$1,724,183.00
BANNER UNIVERSITY MEDICAL CTR TUCSON	\$5,139,819.00
BANNER BEHAVIORIAL HEALTH	\$35,550.00
BANNER CASA GRANDE MEDICAL CENTER	\$2,547,981.00
BANNER DESERT MEDICAL CENTER	\$5,651,892.00
BANNER GATEWAY MEDICAL CENTER	\$1,737,262.00
BANNER GOLDFIELD MEDICAL CENTER	\$268,863.00
BANNER HEART HOSPITAL	\$839,222.00
BANNER IRONWOOD MEDICAL CENTER	\$1,376,693.00
BANNER OCOTILLO MEDICAL CENTER	\$851,013.00
BANNER THUNDERBIRD MEDICAL CENTER	\$5,376,693.00
CHANDLER REGIONAL MEDICAL CENTER	\$2,922,969.00
COBALT REHABILITATION HOSPITAL	\$10,000
COPPER QUEEN COMMUNITY HOSPITAL	\$1,466,372.00
CORNERSTONE BEHAVIORAL HEALTH EL DORADO	\$848,211.00
CORNERSTONE HOSPITAL OF SE ARIZONA	\$262,036.00
DIGNITY HEALTH ARIZONA GENERAL HOSPITAL LAVEEN	\$321,041.00
DIGNITY HEALTH ARIZONA GENERAL HOSPITAL MESA	\$139,154.00
HAVASU REGIONAL MEDICAL CENTER	\$1,634,234.00
HAVEN BHVIORL HOSPITAL OF PHOENIX	\$475,827.00
HOLY CROSS HOSPITAL	\$1,302,029.00
LA PAZ REGIONAL HOSPITAL	\$2,000,000.00
LITTLE COLORADO MEDICAL CENTER	\$5,396,401.00
MERCY GILBERT MEDICAL CENTER	\$820,818.00
MOUNTAIN VALLEY REGIONAL REHAB	\$40,000.00
MOUNTAIN VISTA MEDICAL CENTER	(\$1,639,948.00)
MT. GRAHAM REG MEDICAL CENTER	\$246,600.00

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NORTHERN COCHISE COMMUNITY HOSPITAL	\$535,373.00
ORO VALLEY HOSPITAL	(\$196,941.00)
QUAIL RUN BEHAVIORAL HEALTH	\$17,346.00
REHAB HOSPITAL OF NORTHERN ARIZONA	\$80,000.00
SELECT SPECIALTY HOSPITAL-PHX	\$111,853.00
SELECT SPECIALTY HOSPITAL-PHX D/T	\$4,967,460.00
ST JOSEPH'S HOSPITAL-PHX	\$3,509,275.00
ST JOSEPH'S HOSPITAL-TUCSON	(\$5,226,122.00)
ST LUKE'S BEHAVIORAL HOSPITAL	\$350.00
SUMMIT HEALTHCARE	\$62,922.00
TEMPE ST. LUKE'S HOSPITAL	\$453.00
THE CORE INSTITUTE SPECIALTY HOSPITAL	\$794,212.00
VALLEY VIEW MEDICAL CENTER	\$608,426.00
VALLEYWISE HEALTH MEDICAL CENTER	\$43,906,979.00
WHITE MOUNTAIN REGIONAL MEDICAL CENTER	\$95,403.00
WICKENBURG COMMUNITY HOSPITAL	\$597,174.00
YAVAPAI REGIONAL MEDICAL CENTER	\$4,979,824.00
YUMA REGIONAL MEDICAL CENTER	\$4,709,428.00