

January 14, 2025

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

The Honorable Steve Montenegro
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

The Honorable David Farnsworth
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

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

Dear President Petersen, Speaker Montenegro, Senator Farnsworth, Representative Livingston, Mr. Stavneak, and Mr. Henderson:

Pursuant to A.R.S. § 36-2903.08, please find the enclosed AHCCCS Report on Operating Margins, Net Income Margins and Non-Medicaid Uncompensated Hospital Costs.

Please feel free to contact Jeffery Tegen, Assistant Director for the Division of Business and Finance at Jeffery.tegen@azahcccs.gov or (602) 417-4705 if you have any questions about this report.

Sincerely,

A handwritten signature in cursive script that reads "Virginia Rountree". The signature is written in a dark ink and is positioned above the printed name.

Virginia Rountree

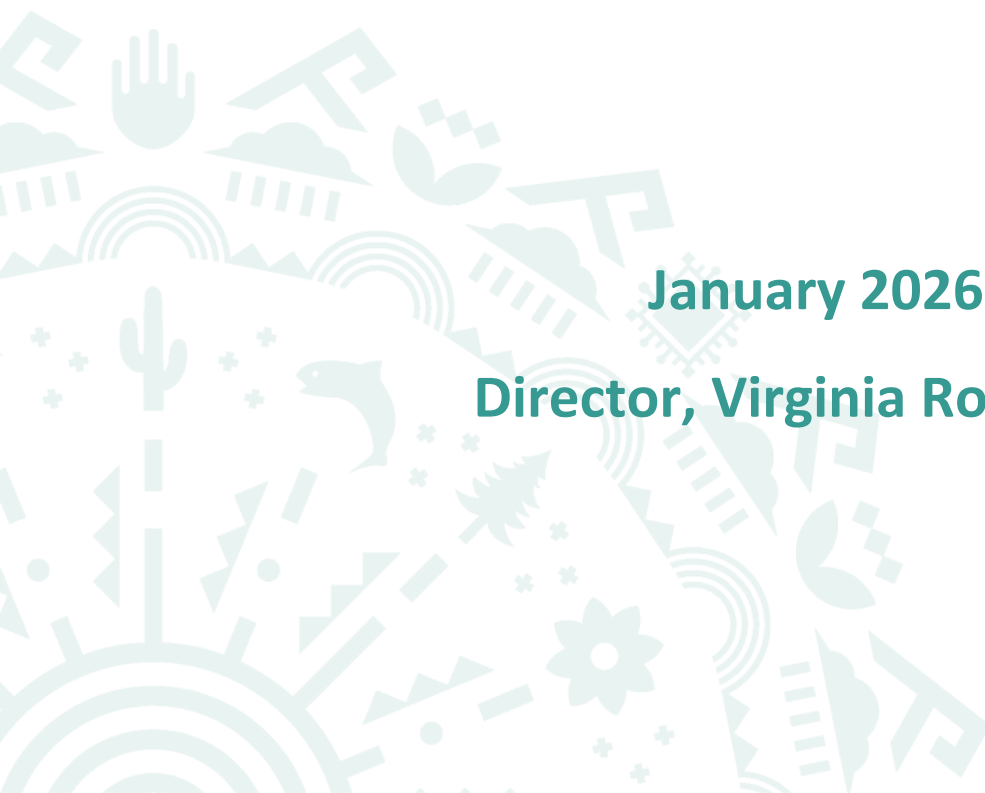
Director



Report on Operating Margins, Net Income Margins and Non-Medicaid Uncompensated Hospital Costs

January 2026

Director, Virginia Rountree



2025 Report on Operating Margins, Net Income Margins and Non-Medicaid Uncompensated Hospital Costs

EXECUTIVE SUMMARY

In Hospital Fiscal Year (HFY) 2024, our Arizona hospitals' combined net operating margin increased by 66% to \$2.6 billion. Combined and average uncompensated care costs continued to increase in HFY 2024, to \$638.5 million and \$5.6 million, respectively. It is important to note that there are several factors that influence hospital operating margins 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 margins continued to vary considerably by hospital type. In HFY 2024 all hospital types except the long-term care group experienced increases from HFY 2023 in both net operating margins and total margins. The negative margins for long-term care hospitals in HFY 2023 decreased further in HFY 2024. Psychiatric hospitals had the highest year over year increase in operating and total margins, rebounding from their poor results in HFY 2023. Critical Access hospitals doubled their net operating margin over HFY 2023. Note that there is considerable variability within each hospital type.

In HFY 2022, the hospital financial reports reflected two significant circumstances that had a direct impact on their financial status. The COVID-19 Public Health Emergency (PHE) which emerged in March 2020 and continued through calendar year 2022, was ended in May 2023. In HFY 2023, federal COVID-19 provider relief payments to the hospitals in this report were only 12% of the amounts paid in HFY 2022. In HFY 2024, only two hospitals reported receiving any federal COVID-19 provider relief payments.

The Centers for Medicare & Medicaid Services (CMS) has long-recognized that American hospitals do not make enough revenue to cover their operating expenses, in large part due to the fact that Medicaid rates do not cover operating expenses for Medicaid patients, and because federal law requires hospitals to treat and admit patients who do not have health insurance. Since the 1980s, states have been utilizing an alternative financing mechanism known as "provider assessments" or "provider taxes" to offset these costs with CMS's permission. In the early 1990s, Congress expressly authorized these taxes, which are now utilized in all 50 states. In March 2020, the Arizona Legislature leveraged this decades-old alternative financing mechanism by creating a new hospital assessment, 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 2024 net payment totaled approximately \$1.7 billion, an increase over the prior year for the HCIF provider assessment program or Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII).

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 on the change in uncompensated hospital costs experienced by

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hospitals in this state and hospital profitability during the previous fiscal year.

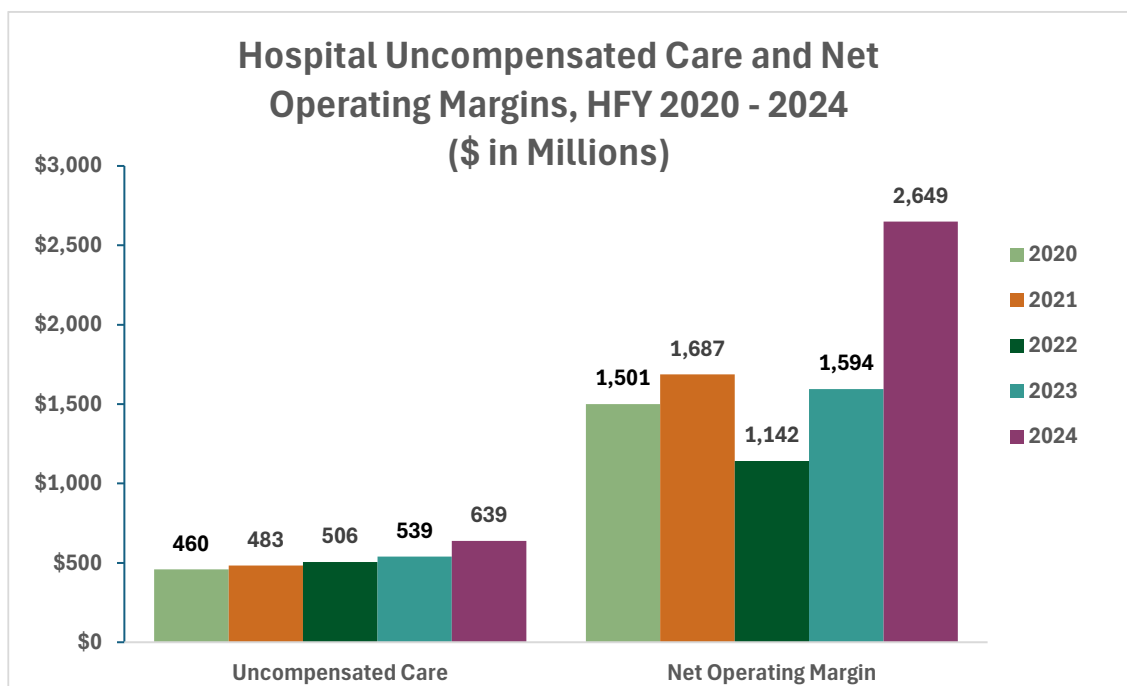
While required by statute to report on uncompensated care costs and “profitability,” this report focuses on two financial measures that are more complex and specific than “profitability,” including operating margins and net income margins. Operating margin measures core patient-care operations, like patient service revenue for inpatient, outpatient, and clinic services; and operating expenses related to staffing, supplies, depreciation, and administration. Hospital operating margins demonstrate whether care delivery business models are financially sustainable. Hospital profit (or more accurately “net income margin”) measures a hospital’s overall financial surplus or deficit from all activities. This includes operating margin, along with investment income, philanthropy, grants, interest, etc.

Previous versions of this report was titled “Report on Uncompensated Hospital Costs and Hospital Profitability. Though the data included and analyzed in the report is consistent with prior years, the report’s name has been changed to more accurately reflect the information being reported. “Uncompensated Hospital Costs” is more accurately described as “Non-Medicaid Uncompensated Hospital Costs” and “Profitability” is more accurately described as the fiscal measures actually subject to this report, which include both “operating margins” and “net income margins.” Accordingly, this report has been renamed the “Report on Non-Medicaid Uncompensated Hospital Costs, Operating Margins, and Net Income Margins.”

Hospital-reported data shows that total uncompensated care grew by \$99.0 million from HFY 2023 to HFY 2024. HFY 2024 total uncompensated care was \$638.5 million, while the average uncompensated care costs for HFY 2024 were \$5.6 million. Uncompensated care as a percentage of total expenses increased from 2.2% during HFY 2023 to 2.5% in HFY 2024.

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	Hospital Margins and Uncompensated Care					
	HFY 2020-2024					
	(\$ in Millions)					
	2020	2021	2022	2023	2024	2023-2024 Change
Total Uncompensated Care	\$460.0	\$482.8	\$505.8	\$539.5	\$638.5	\$638.5
Average Uncompensated Care Costs	\$4.2	\$4.4	\$4.8	\$4.7	\$5.6	\$0.9
Uncompensated Care Costs as a % of Total Expenses	2.5%	2.2%	2.5%	2.2%	2.4%	10.1%
Total Net Operating Margin	\$1,501.2	\$1,687.1	\$1,142.1	\$1,594.1	\$2,649.5	\$1,055.4
Average Operating Margin	\$13.6	\$15.3	\$10.9	\$13.9	\$23.0	\$9.2
Average Operating Margin Percent	7.4%	7.3%	5.3%	6.1%	9.2%	49.6%
Hospitals with a Positive Net Operating Margin	73.6%	77.3%	68.6%	73.0%	81.7%	11.9%
Average Total Income Margin	9.4%	10.1%	6.0%	7.8%	10.4%	32.3%
Average Occupancy Rate	61.9%	67.1%	66.3%	64.9%	66.6%	2.6%



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AHCCCS has implemented several initiatives that have benefited hospitals over 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, 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%.
- Effective October 1, 2022, all acute care hospitals excluding critical access hospitals could qualify for a DAP up to 3.25%. Critical Access Hospitals were eligible for a DAP up to 10.75%. Psychiatric hospitals were eligible for a DAP up to 5.0%. Rehabilitation and long-term acute care hospitals were eligible for a DAP up to 5.25%.
- Effective October 1, 2023, all acute care hospitals excluding critical access hospitals could qualify for a DAP up to 3.0%. Critical Access Hospitals were eligible for DAP up to 10.5%. Psychiatric hospitals were eligible for a DAP up to 7.5 in 2024. Rehabilitation and long-term acute care hospitals were eligible for a DAP up to 4.5%.
- Effective October 1, 2024, all acute care hospitals excluding critical access hospitals could qualify for a DAP up to 2.5%. Critical Access Hospitals were eligible for a DAP up to 10.5%. Psychiatric hospitals were eligible for a DAP up to 7.0%. Rehabilitation and long-term acute care hospitals were eligible for a DAP up to 4.0%.
- The Graduate Medical Education (GME) Program has seen payment increase to hospitals to support their residency programs in recent years. In SFY 2024, AHCCCS paid hospitals a record \$475.7M to support these programs compared to \$425.2 million in SFY 2023. The majority of the GME program is funded by hospitals identifying a local funding partner to provide the match. The State of Arizona has also appropriated \$9 million from the General Fund in both SFY 2023 and SFY 2024 to augment the existing program to encourage the creation or expansion of programs.
- The creation of the Health Care Investment Fund (HCIF) on October 1, 2020, to support a state 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 H.B. 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. After accounting for the HCIF collection amount, this reflects a net increase of approximately \$956.6 million. For FFY 2022 the net payment was \$924.1 million, for FFY 2023 it was \$1.4 billion, and for FFY 2024 it was \$1.7 billion.¹

¹ Notably and historically, there has been a strong correlation between hospitals with the highest Medicaid payer mix, and poor operating margins before receipt of HEALTHII payments. In other words, the hospitals that have had the worst operating margins as a result of high rates of uncompensated care have seen the most improvement post-HEALTHII, while the hospitals with the lowest Medicaid payer mix tend to have the highest operating margins.

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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 (IHS) hospitals and State or tribally owned or operated hospitals, Arizona hospitals are required to submit annual audited financial statements, the Uniform Accounting Report (UAR), and hospital chargemaster 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. Four hospitals were excluded from this report either because they were new or did not provide a UAR in time for completion of this report. These were KPC Promise Hospital, which changed ownership and name to Phoenix Specialty Hospital in 2024; Clear Sky Rehabilitation Hospital of Avondale; Exalt Health Rehabilitation Hospital Scottsdale; and Exceptional Hospital Bullhead City.

The most recent complete year for which UAR data was available was HFY 2024. Reporting periods in each year vary by hospital based on each hospital's fiscal year date. Since hospitals have different fiscal years, the most recently reported years ended between June 2024 and December 2024. 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 that closed during the report year, AHCCCS did not annualize the data.

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 rate due to the patient's inability to pay. The 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 (CCR) averaged 20.8% in HFY 2023 and 20.5% in HFY 2024. That is, for every one dollar of hospital charges, hospital costs averaged approximately 20.5 cents. However, CCRs varied widely among the individual hospitals.

As with uncompensated care, there are several ways to examine "profit". Total net operating profit or "operating margin," 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 margin as well as revenues and expenses

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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 percentage of operating revenues left after operating expenses have been paid. Similarly, “net 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 \$539.5 million in HFY 2023 and increasing to \$638.5 million in HFY 2024. Uncompensated care costs for the two most recent reporting years are noted in Table 1.

Table 1—Uncompensated Care Costs, All Hospitals

	<u>2023</u>	<u>2024</u>	<u>Percentage Change</u>
Total Uncompensated Care Costs	\$539.5 Million	\$638.5 Million	18.4%
Statewide Average Uncompensated Care Costs Per Hospital	\$4.7 Million	\$5.6 Million	18.4%
Lowest Uncompensated Care Costs *	\$10.9 Thousand	\$1.0 Thousand	(90.7)%
Highest Uncompensated Care Costs	\$75.3 Million	\$56.2 Million	(25.3)%
*Excludes hospitals which did not provide uncompensated care			

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 decreased by 10.1% during this period as shown in Table 2. This follows a decrease of 10.2% in HFY 2023.

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Table 2— Uncompensated Care Percent of Expenses, All Hospitals

	<u>2023</u>	<u>2024</u>	<u>Percentage Change</u>
Average % of Uncompensated Care	2.21%	2.43%	10.1%
Lowest % of Uncompensated Care Costs*	0.05%	0.01%	
Highest % of Uncompensated Care	13.85%	15.67%	
*Excludes hospitals which do not provide uncompensated care			

3. Operating Margins

Operating margins continue to vary greatly across hospitals, from significant losses to significant gains. The statewide average operating margins for the Arizona hospitals included in this analysis increased by almost \$10.0 million. The percentage of hospitals with a net income margin increased from 73.0% in HFY 2023 to 81.7% in HFY 2024.

Table 3—Operating Margins, All Hospitals

	<u>2023</u>	<u>2024</u>	<u>Percentage Change</u>
Total Operating Margin	\$1,594 Million	\$2,649 Million	66.2%
Statewide Average Operating Margin	\$13.9 Million	\$23.0 Million	66.2%
Lowest Operating Margin	\$(206.6) Million	\$(84.1) Million	
Highest Operating Margin	\$257.5 Million	\$310.6 Million	
Percent of Hospitals with Positive Operating Margin	73.0%	81.7%	

4. Net Operating Margin

Net operating margin, defined as profit(loss) as a percentage of total revenue, averaged 6.1% in HFY 2023 and 9.2% in HFY 2024, as shown in Table 4. For this analysis, the average net operating margin equals the statewide total profit(loss) divided by statewide total revenue. Overall, 73.0% of hospitals in HFY 2023 and 81.7% in HFY 2024 had a positive net operating margin.

Table 4—Net Operating Margin, All Hospitals

	<u>2023</u>	<u>2024</u>	<u>Percentage Change</u>
Average Net Operating Margin	6.1%	9.2%	49.6%
Lowest Net Operating Margin*	(61.6)%	(76.1)%	
Highest Net Operating Margin	32.4%	30.1%	
Percent of Hospitals with Positive Net Margin	73.0%	81.7%	
*Excludes hospitals which have been open less than 2 years at the end of the reporting period.			

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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 margins (loss) as a percentage of statewide total operating and non-operating revenue. Average total margin increased from 7.8% across all hospitals in HFY 2023 to 10.4% in HFY 2024, as shown in Table 5.

Table 5—Total Margin, All Hospitals

	<u>2023</u>	<u>2023</u>	Percentage Change
Average Total Margin	7.8%	10.4%	32.3%
Lowest Total Margin *	(61.6)%	(76.1)%	
Highest Total Margin	28.1%	30.5%	
Hospitals with Positive Total Margin	73.0%	81.7%	
*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 an increase from HFY 2023 to HFY 2024, with average occupancy rates of 64.9% and 66.6%, respectively. Banner University Medical Center - Phoenix's occupancy rate, at 100.3%, is an artifact of the UAR calculation.

Table 6—Occupancy Rates, All Hospitals

	<u>2023</u>	<u>2024</u>	Percentage Change
Average Occupancy Rate	64.9%	66.6%	2.6%
Lowest Occupancy Rate	3.0%	6.4%	
Highest Occupancy Rate	98.9%	100.3%	

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 66 in HFY 2023, increasing to 69 in HFY 2024.

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Table 7—Days in Accounts Receivable, All Hospitals

	<u>2023</u>	<u>2024</u>	<u>Percentage</u> <u>Change</u>
Average Days in Accounts Receivable	66	69	4.5%
Fewest Days	26	25	
Most Days *	318	692	

* 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 Groups

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 categorized based on their classification in the ADHS Provider and Facility Database as of July 1, 2025. 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 almost half of the hospitals are classified as general acute care hospitals, but they include 91% 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 2.9% in HFY 2024. Long-term hospitals and short-term specialty hospitals continued to experience rates of less than 1.0%. The percentage point changes in this metric from HFY 2023 were almost flat for all groups.

There continues to be variability in net operating margin between the different peer groups. In HFY 2024, the range in net operating margin was from (14.1)% to 16.8%. This reflects greater variability than HFY 2023, when the range was from (10.9)% to 14.9%. Rehabilitation hospitals are again the peer group with the highest net operating margin in HFY 2024; long-term acute care hospitals remain the group with the lowest net operating margin.

Currently there are six long-term acute care hospitals. PAM Health Specialty Hospital was closed in December 2022. KPC Promise Hospital was acquired by Phoenix Specialty Hospital in August 2024. Select Specialty opened a new location at Tucson East.

Medical Behavioral Hospital of Northern Arizona opened in Yavapai County in 2020 and closed in 2022. The Geropsychiatric Center at Tucson Medical Center closed in 2022. Agave Ridge Behavioral Hospital opened in 2024. St. Luke's Behavioral Hospital was closed in August of 2024, then acquired and reopened by College Health Enterprises in December, as College Medical Center Phoenix.

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Four new rehabilitation hospitals have opened since HFY 2020. Banner Rehabilitation Hospital East in Mesa, Reunion Rehabilitation Hospital in Phoenix and Dignity Health East Valley Rehabilitation Hospital in Gilbert opened in 2022. Clear Sky Rehabilitation Hospital in Avondale and Reunion Rehabilitation Hospital in Peoria opened in 2023. Cobalt Rehabilitation Hospital changed ownership and is now PAM Rehabilitation Hospital of Surprise.

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. Margins for CAHs continued an upward trend from last year's report: Net operating margin for CAHs increased from 5.2% in HFY 2023 to 10.4% in HFY 2024; total income margin increased from 7.6% in HFY 2023 to 12.6% in HFY 2024.

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Table 8 -- Operating Margin, Net Income Margin and Non-Medicaid Uncompensated Care by Hospital Peer Group

	Critical Access	Long Term	Rehabilitation	Psychiatric	Short Term Specialty	General Acute Care
Number of Hospitals which Submitted a UAR (HFY 2023)	12	5	15	18	9	56
Occupancy Rate	28.8%	66.1%	69.9%	76.4%	35.8%	64.6%
Total Gains, Revenues, and Other Support	\$ 570,071,774	\$ 76,957,640	\$ 382,101,539	\$ 506,662,289	\$ 610,129,686	\$ 23,859,347,364
Total Expenses	\$ 540,614,786	\$ 85,362,356	\$ 325,243,429	\$ 503,314,558	\$ 529,842,260	\$ 22,426,824,825
Net Operating Profit(Loss)	\$ 29,456,988	\$ (8,404,716)	\$ 56,858,110	\$ 3,347,732	\$ 80,287,426	\$ 1,432,522,539
Net Operating Margin	5.2%	-10.9%	14.9%	0.7%	13.2%	6.0%
Total Income Margin	7.6%	-9.1%	12.9%	1.1%	12.4%	7.8%
Days in Accounts Receivable	46	78	50	99	59	67
Cost to Charge Ratio	32.6%	15.1%	41.6%	41.3%	12.8%	20.6%
Cost of Bad Debts	\$ 12,168,513	\$ 80,143	\$ 2,357,327	\$ 6,949,855	\$ 1,889,779	\$ 203,946,910
Cost of Charity Care	\$ 3,297,252	\$ -	\$ 517,199	\$ 2,691,588	\$ 1,774,392	\$ 303,818,200
Uncompensated Care Cost	\$ 15,465,765	\$ 80,143	\$ 2,874,526	\$ 9,641,443	\$ 3,664,171	\$ 507,765,111
Uncompensated Care Cost as a % of Total Expenses	2.86%	0.09%	0.88%	1.92%	0.69%	2.26%
Number of Hospitals which Submitted a UAR (HFY 2024)	12	5	17	19	7	55
2024 Uniform Accounting Report						
Occupancy Rate	31.8%	62.9%	71.9%	71.9%	40.8%	66.9%
Total Gains, Revenues, and Other Support	\$ 662,901,633	\$ 75,215,328	\$ 463,924,196	\$ 503,289,293	\$ 776,914,338	\$ 26,415,618,411
Total Expenses	\$ 593,731,601	\$ 85,822,756	\$ 386,165,484	\$ 480,971,932	\$ 678,151,871	\$ 24,023,525,862
Net Operating Profit(Loss)	\$ 69,170,032	\$ (10,607,429)	\$ 77,758,712	\$ 22,317,360	\$ 98,762,467	\$ 2,392,092,550
Net Operating Margin	10.4%	-14.1%	16.8%	4.4%	12.7%	9.1%
Total Income Margin	12.6%	-13.0%	15.4%	3.9%	12.1%	10.4%
Days in Accounts Receivable	46	85	46	89	71	69
Cost to Charge Ratio	32.0%	12.1%	39.8%	40.8%	13.9%	20.3%
Cost of Bad Debts	\$ 13,532,207	\$ 55,923	\$ 2,426,784	\$ 6,111,218	\$ 2,793,233	\$ 289,414,720
Cost of Charity Care	\$ 3,653,233	\$ -	\$ 463,962	\$ 2,646,263	\$ 1,592,725	\$ 315,848,325
Uncompensated Care Cost	\$ 17,185,440	\$ 55,923	\$ 2,890,747	\$ 8,757,481	\$ 4,385,959	\$ 605,263,045
Uncompensated Care Cost as a % of Total Expenses	2.89%	0.07%	0.75%	1.82%	0.65%	2.52%
CHANGE: 2023 to 2024						
Average Occupancy Percentage	10.4%	-4.8%	3.0%	-5.8%	14.1%	3.6%
Total Gains, Revenues, and Other Support	\$ 92,829,859	\$ (1,742,312)	\$ 81,822,657	\$ (3,372,997)	\$ 166,784,682	\$ 2,556,271,047
Total Expenses	\$ 53,116,815	\$ 460,401	\$ 60,922,055	\$ (22,342,625)	\$ 148,309,611	\$ 1,596,701,036
Net Operating Profit(Loss)	\$ 39,713,044	\$ (2,202,713)	\$ 20,900,602	\$ 18,969,628	\$ 18,475,041	\$ 959,570,011
Net Operating Margin	101.9%	-29.1%	12.6%	571.1%	-3.4%	50.8%
Total Margin	65.1%	-43.0%	18.8%	244.7%	-3.0%	32.1%
Average Days in Accounts Receivable	0	7	-4	-10	12	2
Cost to Charge Ratio	-1.9%	-20.0%	-4.4%	-1.1%	8.8%	-1.4%
Cost of Bad Debts	\$ 1,363,693	\$ (24,220)	\$ 69,457	\$ (838,637)	\$ 903,455	\$ 85,467,810
Cost of Charity Care	\$ 355,982	\$ -	\$ (53,237)	\$ (45,325)	\$ (181,667)	\$ 12,030,124
Uncompensated Care Cost	\$ 1,719,675	\$ (24,220)	\$ 16,220	\$ (883,962)	\$ 721,788	\$ 97,497,934
Uncompensated Care Cost as % of Total Expenses	1.2%	-30.6%	-15.3%	-4.9%	-6.5%	11.3%

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Urban and Rural Hospitals

In addition to categorizing hospitals by peer group, this report displays the differences in uncompensated care, operating margin, and net income margin 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 2024, approximately 73% of hospitals were located in urban areas, and 85% of total gains, revenues, and other support went to urban hospitals. From HFY 2023 to HFY 2024, urban hospitals’ uncompensated care as a percentage of total expenses increased from 2.1% to 2.4%. Rural hospitals’ uncompensated care as a percentage of total expenses increased from 2.7% in HFY 2023 to 2.8% in HFY 2024.

As a group, in HFY 2024 rural hospitals averaged lower net operating margins but higher total income margins than urban hospitals. Rural hospitals had a net operating margin of 9.0% compared to 9.2% for urban hospitals. Total income margins were 13.0% for rural hospitals and 9.9% for urban hospitals.

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.² Being a non-profit hospital does not mean that a hospital cannot have an operating surplus. As measured by total income margin, the hospitals with the largest net income margins since HFY 2021 have been the non-profit hospitals, as a group. Notably, non-profit hospitals are required to use margins to reinvest in mission-supported work and investments, which often include community projects and philanthropy.

As a group, for-profit hospitals’ net operating margin increased from 8.2% in HFY 2023 to 10.3% in HFY 2024. Non-profit hospitals’ net operating margin increased from 5.7% to 8.9%. Average net operating margin per for-profit hospital in HFY 2024 was \$7.6 million and \$41.7 million for the non-profit hospitals.

These dollar figures, however, must be viewed in the context of hospital size and business model. While non-profit hospitals constitute approximately 45% of all hospitals in Arizona, they received over 84% 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, operating margins, and net income margin by Medicaid volume: hospitals with Medicaid volume less than 25%, from 25-50%, and greater than 50%.³

² 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.

³ 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.

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Average uncompensated care as a percentage of total expenses in HFY 2024 was lowest at hospitals with Medicaid volume less than 25%, increasing from 1.4% in HFY 2023 to 1.7% in HFY 2024. In the middle range, 25% to 50%, this metric increased from 2.5% in HFY 2023 to 2.9% in HFY 2024. Hospitals with Medicaid volumes greater than 50% improved from 3.9% in HFY 2023 to 3.1% in HFY 2024. Since uncompensated care in this report is defined as the sum of charity care and the provision for bad debt, the uncompensated care does not include any shortfall associated with Medicaid payments and the cost of services.

Hospitals that have more than a 50% Medicaid payer mix have traditionally had the worst operating margins, before accounting for HEALTHII payments. During the initial years of the HEALTHII payment program, these same hospitals saw the greatest improvement in operating margins. Converse trends are also evident. Hospitals with low Medicaid payer mix have historically seen better operating margins. This is proof positive that the HEALTHII program is working—this alternative financing mechanism is supporting hospitals that need it the most.

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Table 9 -- Operating Margin, Net Income Margin and Non-Medicaid Uncompensated Care 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 2023)	85	30	66	49	14	47	54
2023 Uniform Accounting Report	-	-					
Occupancy Rate	68.1%	46.9%	58.1%	68.4%	72.9%	64.8%	61.9%
Total Gains, Revenues, and Other Support	\$ 22,019,062,359	\$ 3,986,207,933	\$ 4,355,277,698	\$ 21,649,992,594	\$ 2,511,736,606	\$ 13,890,333,075	\$ 9,603,200,612
Total Expenses	\$ 20,630,964,757	\$ 3,780,247,466	\$ 3,999,858,742	\$ 20,411,343,471	\$ 2,597,789,524	\$ 12,776,823,952	\$ 9,086,588,737
Net Operating Profit(Loss)	\$ 1,388,107,602	\$ 205,960,477	\$ 355,418,956	\$ 1,238,649,123	\$ (86,052,918)	\$ 1,113,509,123	\$ 566,611,875
Net Operating Margin	6.3%	5.2%	8.2%	5.7%	-3.4%	8.0%	5.9%
Total Income Margin	7.6%	8.9%	6.9%	8.0%	7.8%	9.0%	6.1%
Days in Accounts Receivable	66	67	72	65	75	60	73
Cost to Charge Ratio	20.6%	21.8%	12.6%	23.9%	32.2%	20.4%	19.5%
Cost of Bad Debts	\$ 159,334,266	\$ 68,058,262	\$ 34,118,537	\$ 193,273,991	\$ 30,166,683	\$ 136,738,715	\$ 60,487,129
Cost of Charity Care	\$ 277,999,675	\$ 34,098,966	\$ 12,246,829	\$ 299,851,803	\$ 72,041,338	\$ 176,688,697	\$ 63,368,596
Uncompensated Care Cost	\$ 437,333,941	\$ 102,157,218	\$ 46,365,365	\$ 493,125,794	\$ 102,208,021	\$ 313,427,413	\$ 123,855,725
Uncompensated Care Cost as a % of Total Expenses	2.1%	2.7%	1.2%	2.4%	3.9%	2.5%	1.4%
Number of Hospitals which Submitted a UAR (HFY 2024)	84	31	63	52	18	37	56
2024 Uniform Accounting Report	-	-					
Occupancy Rate	69.7%	49.6%	58.9%	70.6%	73.5%	66.3%	66.9%
Total Gains, Revenues, and Other Support	\$ 24,456,507,764	\$ 4,441,355,435	\$ 4,667,283,199	\$ 24,230,580,000	\$ 2,988,794,939	\$ 14,085,972,778	\$ 11,698,000,901
Total Expenses	\$ 22,208,038,201	\$ 4,040,331,305	\$ 4,185,162,912	\$ 22,063,206,594	\$ 2,962,868,168	\$ 12,569,638,045	\$ 10,574,753,667
Net Operating Profit(Loss)	\$ 2,248,469,563	\$ 401,024,130	\$ 482,120,286	\$ 2,167,373,406	\$ 25,926,771	\$ 1,516,334,733	\$ 1,123,247,234
Net Operating Margin	9.2%	9.0%	10.3%	8.9%	0.9%	10.8%	9.6%
Total Income Margin	9.9%	13.0%	8.5%	10.7%	5.9%	11.9%	9.9%
Days in Accounts Receivable	70	61	72	68	77	59	77
Cost to Charge Ratio	20.4%	21.5%	12.3%	23.5%	32.9%	19.6%	19.5%
Cost of Bad Debts	\$ 235,187,185	\$ 79,146,900	\$ 44,836,388	\$ 269,497,697	\$ 54,189,233	\$ 177,107,195	\$ 82,630,283
Cost of Charity Care	\$ 290,656,775	\$ 33,547,734	\$ 24,056,884	\$ 300,147,624	\$ 37,378,986	\$ 186,430,489	\$ 100,259,846
Uncompensated Care Cost	\$ 525,843,960	\$ 112,694,634	\$ 68,893,272	\$ 569,645,322	\$ 91,568,219	\$ 363,537,684	\$ 182,890,129
Uncompensated Care Cost as a % of Total Expenses	2.4%	2.8%	1.6%	2.6%	3.1%	2.9%	1.7%
CHANGE: 2023 to 2024							
Average Occupancy Percentage	2.3%	5.8%	1.4%	3.2%	0.9%	2.3%	6.4%
Total Gains, Revenues, and Other Support	\$ 2,437,445,404	\$ 455,147,502	\$ 312,005,501	\$ 2,580,587,406	\$ 477,058,333	\$ 195,639,703	\$ 2,094,800,290
Total Expenses	\$ 1,577,083,443	\$ 260,083,850	\$ 185,304,170	\$ 1,651,863,123	\$ 365,078,644	\$ (207,185,907)	\$ 1,538,164,980
Net Operating Profit(Loss)	\$ 860,361,961	\$ 195,063,652	\$ 126,701,331	\$ 928,724,283	\$ 111,979,690	\$ 402,825,610	\$ 556,635,359
Net Operating Margin	45.8%	74.8%	26.6%	56.3%	125.3%	34.3%	62.7%
Total Margin	29.0%	46.6%	23.6%	33.6%	-24.5%	32.4%	61.9%
Average Days in Accounts Receivable	\$ 4	(6)	-	3	2	(1)	4
Cost to Charge Ratio	-1.4%	-1.4%	-2.1%	-1.6%	2.0%	-3.8%	0.3%
Cost of Bad Debts	\$ 75,852,919	\$ 11,088,639	\$ 10,717,851	\$ 76,223,706	\$ 24,022,550	\$ 40,368,480	\$ 22,143,154
Cost of Charity Care	\$ 12,667,100	\$ (551,222)	\$ 11,810,055	\$ 295,822	\$ (34,662,352)	\$ 9,741,792	\$ 36,891,250
Uncompensated Care Cost	\$ 88,510,019	\$ 10,537,416	\$ 22,527,907	\$ 76,519,528	\$ (10,639,802)	\$ 50,110,271	\$ 59,034,404
Uncompensated Care Cost as % of Total Expenses	11.7%	3.2%	42.0%	6.9%	-21.4%	17.9%	26.2%
For HFY2024, the Medicaid Volumes section excludes 1) Agave Ridge Behavioral Hospital, which, being new in 2024, had no Medicaid volume data. 2) The former Steward hospitals (Florence Hospital, Mountain Vista Medical Center and Tempe St. Luke's Hospital) acquired by HonorHealth because post-acquisition data not available.							

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HOSPITAL SYSTEMS

Finally, AHCCCS has presented hospital operating margins, net income margin, and uncompensated care by hospital systems. Table 10 lists eleven 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, 2025, regardless of whether they were in that hospital system in both 2023 and 2024.

Steward Health is included for HFY 2023 data only; its three general acute hospitals – Florence Hospital, Mountain Vista Medical Center and Tempe St. Luke’s Hospital - have now been moved to the HonorHealth system. St Luke’s Behavioral is now in a system having less than three hospitals.

Banner Health, the state’s largest health system, includes eighteen hospitals. The next largest health systems are Dignity Health and HonorHealth. Two systems have been added to Table 10 as having at least three hospitals each; these are TMC Health, which operates general acute hospitals, and Universal Health Services, which operates behavioral health hospitals.

In HFY 2024, hospital system operating margins ranged from \$9.3 thousand for the TMC Health hospitals to \$1.3 billion for the Banner Health hospitals. Every system except Dignity Health showed a substantial increase in operating margins in HFY 2024 compared to HFY 2023; Banner more than doubled their operating margins. HFY 2024 net operating margins were highest for the Banner system, followed by the Encompass Health system, which consists of rehabilitation hospitals.

As was the case in HFY 2023, uncompensated care as a percentage of total expenses showed a fairly wide range across health systems, from a high of 3.6% to a low of 0.4% in HFY 2024. The Select Medical system, which operates rehabilitation and long-term acute hospitals, had the lowest uncompensated care cost as a percentage of total expenses in HFY 2024.

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Table 10 -- Operating Margin, Net Income Margin and Non-Medicaid Uncompensated Care 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	TMC Health	Universal Health Services, Inc.
Number of Hospitals which Submitted a UAR (HFY 2023)	11	18	5	9	6	6	4	8	4		
2023 Uniform Accounting Report											
Occupancy Rate	47.8%	70.9%	51.8%	77.4%	63.1%	63.0%	36.7%	77.0%	50.8%		
Total Revenues, Gains, and Other Support	\$ 1,492,959,801	\$ 7,527,975,314	\$ 734,874,428	\$ 3,538,934,781	\$ 150,004,273	\$ 2,697,982,469	\$ 473,811,072	\$ 192,330,877	\$ 299,205,223		
Total Expenses	\$ 1,330,059,801	\$ 6,920,495,994	\$ 679,891,967	\$ 3,312,880,301	\$ 128,899,777	\$ 2,543,209,168	\$ 403,944,744	\$ 174,386,381	\$ 332,084,152		
Net Operating Profit (Loss)	\$ 162,900,000	\$ 607,479,319	\$ 54,982,461	\$ 226,054,481	\$ 21,104,496	\$ 154,773,301	\$ 69,866,328	\$ 17,934,496	\$ (32,878,929)		
Net Operating Margin	10.9%	8.1%	7.5%	6.4%	14.1%	5.7%	14.7%	9.3%	-11.0%		
Total Income Margin	8.4%	8.1%	7.5%	7.4%	8.4%	5.7%	12.4%	10.2%	-11.0%		
Days in Accounts Receivable	65	49	78	68	53	58	51	62	83		
Cost to Charge Ratio	9.0%	23.7%	9.7%	20.4%	58.0%	15.8%	14.7%	20.0%	21.9%		
Cost of Bad Debts	\$ 9,604,854	\$ 37,046,953	\$ 3,402,703	\$ 45,506,737	\$ 1,865,910	\$ 12,037,118	\$ 5,219,940	\$ 479,755	\$ 3,634,180		
Cost of Charity Care	\$ 9,090,141	\$ 120,548,103	\$ 91,854	\$ 42,184,976	\$ 122,825	\$ 38,418,988	\$ 227,179	\$ 394,375	\$ 14,119		
Cost of Uncompensated Care	\$ 18,694,994	\$ 157,595,056	\$ 3,494,557	\$ 87,691,713	\$ 1,988,734	\$ 50,456,106	\$ 5,447,119	\$ 874,130	\$ 3,648,299		
Uncompensated Care Costs as a Percent of Expenses	1.4%	2.3%	0.5%	2.6%	1.5%	2.0%	1.3%	0.5%	1.1%		
Number of Hospitals which Submitted a UAR (HFY 2024)	10	18	5	7	6	9	7	8	0	4	4
2024 Uniform Accounting Report											
Occupancy Rate	46.7%	71.6%	56.9%	81.4%	61.7%	62.2%	50.3%	78.0%		78.4%	79.8%
Total Revenues, Gains, and Other Support	\$ 1,639,156,441	\$ 8,767,976,048	\$ 755,946,968	\$ 3,476,259,821	\$ 160,671,121	\$ 3,063,990,502	\$ 624,506,098	\$ 205,784,185		\$ 923,401,323	\$ 132,713,605
Total Expenses	\$ 1,431,384,345	\$ 7,453,274,616	\$ 667,769,810	\$ 3,297,897,056	\$ 137,651,595	\$ 2,892,422,205	\$ 520,525,616	\$ 184,800,117		\$ 922,473,660	\$ 127,608,416
Net Operating Profit (Loss)	\$ 207,772,096	\$ 1,314,701,431	\$ 88,177,157	\$ 178,362,765	\$ 23,019,525	\$ 171,568,297	\$ 103,980,441	\$ 20,984,067		\$ 927,663	\$ 5,105,189
Net Operating Margin	12.7%	15.0%	11.7%	5.1%	14.3%	5.6%	16.7%	10.2%		0.1%	3.8%
Total Income Margin	9.7%	15.0%	11.7%	6.8%	9.7%	5.6%	12.1%	11.0%		1.7%	3.0%
Days in Accounts Receivable	63	46	81	70	47	65	61	60		81	61
Cost to Charge Ratio	8.5%	23.8%	9.3%	19.6%	60.2%	15.4%	15.5%	16.7%		27.4%	39.5%
Cost of Bad Debts	\$ 12,491,241	\$ 66,794,937	\$ 4,580,816	\$ 65,219,601	\$ 1,667,722	\$ 12,176,966	\$ 6,538,084	\$ 549,932		\$ 22,014,174	\$ 2,088,464
Cost of Charity Care	\$ 10,033,824	\$ 148,041,521	\$ 93,688	\$ 51,988,282	\$ 265,423	\$ 41,123,546	\$ 77,849	\$ 198,540		\$ 4,652,364	\$ 611,977
Cost of Uncompensated Care	\$ 22,525,065	\$ 214,835,458	\$ 4,674,504	\$ 117,207,883	\$ 1,933,145	\$ 53,300,512	\$ 6,615,933	\$ 748,472		\$ 26,666,539	\$ 2,700,441
Uncompensated Care Costs as a Percent of Expenses	1.6%	2.9%	0.7%	3.6%	1.4%	1.8%	1.3%	0.4%		2.9%	2.1%
CHANGE: 2023 to 2024											
Average Occupancy Percentage	-2.3%	1.0%	9.9%	5.1%	-2.3%	-1.3%	37.0%	1.3%			
Total Revenue, Gains, and Other Support	\$ 146,196,640	\$ 1,240,000,734	\$ 21,072,540	\$ (62,674,960)	\$ 10,666,848	\$ 366,008,032	\$ 150,694,986	\$ 13,463,308			
Total Expenses	\$ 101,324,544	\$ 532,778,622	\$ (12,122,157)	\$ (14,983,244)	\$ 8,751,818	\$ 349,213,037	\$ 116,580,872	\$ 10,413,737			
Total Net Operating Profit (Loss)	\$ 44,872,096	\$ 707,222,112	\$ 33,194,697	\$ (47,691,716)	\$ 1,915,029	\$ 16,794,996	\$ 34,114,114	\$ 3,049,571			
Net Operating Margin	16.2%	85.8%	55.9%	-19.7%	1.8%	-2.4%	12.9%	9.3%			
Total Income Margin	15.6%	85.8%	55.9%	-7.8%	14.2%	-2.4%	-2.5%	7.2%			
Average Days in Accounts Receivable	(2)	(3)	3	2	(6)	7	10	(2)			
Cost to Charge Ratio	-5.1%	0.2%	-3.7%	-4.3%	3.7%	-2.2%	5.4%	-16.5%			
Cost of Bad Debts	\$ 2,886,388	\$ 29,747,985	\$ 1,178,113	\$ 19,712,865	\$ (198,187)	\$ 139,848	\$ 1,318,143	\$ 70,177			
Cost of Charity Care	\$ 943,688	\$ 27,498,418	\$ 1,834	\$ 9,803,306	\$ 142,598	\$ 2,704,558	\$ (149,329)	\$ (195,835)			
Cost of Uncompensated Care	\$ 3,830,071	\$ 57,241,402	\$ 1,179,947	\$ 29,516,170	\$ (55,589)	\$ 2,844,405	\$ 1,168,814	\$ (125,658)			
Uncompensated Care Costs as a Percent of Expenses	12.0%	26.6%	36.2%	34.3%	-9.0%	-7.1%	-5.7%	-19.2%			

For HFY2024, the four formerly Steward hospitals are shown in the HonorHealth system. Two systems, TMC Health and Universal Health Services, Inc. have been added, their hospitals were previously ungrouped. Copper Springs Hospital, Cornerstone El Dorado and Dignity Health East Valley Rehabilitation Hospital (Chandler) were moved to the Lifepoint Health system.

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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, and ended in May 2023, has had impacts on Arizona hospitals which have been described in prior year versions of this report.

While there are no specific COVID-19 sections in the data which hospitals submitted in their HFY 2024 UARs, COVID Provider Relief Funds, established under the CARES Act, are included in the Medicare Cost Reports. Only two Arizona hospitals received these funds in HFY 2024, Valleywise Health Medical Center and White Mountain Regional Hospital, totaling \$316,716.00. Please refer to Appendix D at the end of this report. This contrasts with the funding levels in HFY 2023 at \$13 million and HFY 2022 at \$106 million.

Admission rates at hospitals decreased dramatically during the first year of the Public Health Emergency (PHE), as elective procedures were canceled or postponed due to the spread of the virus and people may have been delaying care. ⁴ The average occupancy rate for the hospitals in this report has rebounded to pre-Covid levels, at 66.6% for HFY 2024. This mirrors the national trend, with average occupancy at 75.3% for the year ending April 2024, compared to a pre-Covid 10-year average of 63.9% ⁵

AHCCCS was able to leverage the increased federal medical assistance percentage (FMAP) due to the PHE to increase specific supplemental payments. Critical Access Hospital (CAH) payments were increased by \$5.3 million in HFY 2020, and again by approximately \$2.2 million in HFY 2021. ⁶ In HFY 2022 and HFY 2023, these payments remained at the HFY 2021 levels. Note that in HFY 2024, CAH payments totaled approximately \$30.2 million including a State General Fund one-time increase. 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. Since the PHE ended in May 2023, the FMAP has gradually returned to pre-Covid PHE levels.

⁴ 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)

⁵ Richard K. Leuchter, MD, et al. Health Care Staffing Shortages and Potential National Hospital Bed Shortage <https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2830387>

⁶ 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>

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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. PAM Health Specialty Hospital closed in December 2022. Medical Behavioral Hospital of Northern Arizona closed in late 2022. Talas Harbor at Buckeye and Talas Harbor at Bullhead, OASIS Hospital and Phoenix ER & Medical Hospital closed in 2024. St. Luke's Behavioral Hospital closed in mid-2024, then was acquired by College Health Enterprises as College Medical Center Phoenix.

Florence Hospital, Mountain Vista Medical Center and Tempe St. Luke's Hospital were acquired by the HonorHealth system. KPC Promise Hospital of Phoenix changed ownership in 2024 to Phoenix Specialty Hospital and is not included in this report since no 2023 or 2024 UARs were submitted. Also in 2024, Carondelet Marana in Tucson and Abrazo Cave Creek in Phoenix were relicensed as FrEDs.

Since 2022, the following hospitals were opened: Exceptional Health Care Yuma, Exceptional Health Care Maricopa (Maricopa Community Hospital), Dignity Health East Valley Rehabilitation Hospital Gilbert, East Valley ER & Hospital, Via Linda Behavioral Hospital, Reunion Rehabilitation Hospital in Phoenix and Reunion Rehabilitation Hospital in Peoria. In 2024, Tucson Medical Center opened their Rincon location; Agave Ridge Behavioral Health Hospital opened in Mesa; Phoenix Children's Hospital opened their Arrowhead Campus. New hospitals not included in this report because their 2024 UAR data was not available: clear Sky Rehabilitation Hospital in June 2023, Exceptional Health Care Bullhead City in October 2023 and Exalt Health Rehabilitation in November 2024.

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; the former changed ownership in 2024 as described above, and the latter closed in 2022. 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.⁷

More recently a report from Center for Healthcare Quality and Payment Reform found two Arizona hospitals at risk for closure.⁸ According to a study from the University of North Carolina, substantial cuts to Medicaid or Medicare payments could force rural hospitals to close due to budget cuts from the One Big Beautiful Bill Act. Five rural CAH hospitals in Arizona are projected to be at risk: Carondelet Holy Cross Hospital in Nogales, Copper Queen Community Hospital in Bisbee, Cobre Valley Regional Medical Center in Globe, Little Colorado Medical Center in Winslow and Page Hospital in Page.⁹

⁷ Center for Healthcare Quality and Payment Reform "RURAL HOSPITALS AT RISK OF CLOSING" July 2024
https://chqpr.org/downloads/Rural_Hospitals_at_Risk_of_Closing.pdf

⁸ Gamble, Molly. "703 hospitals at risk of closure, state by state." Becker's Hospital Review. August 5th, 2024
<https://www.beckershospitalreview.com/finance/703-hospitals-at-risk-of-closure-state-by-state.html>

⁹ Katie Mendoza. Reverse Robin Hood: Medicaid cuts threaten rural Arizona hospitals to fund top 1% tax breaks
<https://crh.arizona.edu/news/reverse-robin-hood-medicare-cuts-threaten-rural-arizona-hospitals-fund-top-1-tax-breaks>

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Closures of rural hospitals may present challenges to nearby patients, who often must travel a considerable distance to the next closest hospital, while the resources of remaining hospitals may be strained. AHCCCS is continuing to monitor market conditions to ensure that AHCCCS members have adequate access to care.

Micro-Hospitals and Freestanding Emergency Departments

Despite healthcare 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, and the three Exceptional Health Care hospitals in Bullhead City, Maricopa and Yuma, are the most recent micro-hospitals 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 have built 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 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, there are at least 29 such facilities. In 2024, Carondelet Marana in Tucson and Abrazo Cave Creek in Phoenix were relicensed as FrEDs.

REIMBURSEMENT

In addition to base reimbursement rates, many AHCCCS providers receive time-limited rate increases via DAP initiatives for meeting certain performance or quality criteria, which has increased overall Medicaid reimbursement to hospitals. Furthermore, as noted previously, in HFY 2024 hospitals received a net benefit of \$1.7 billion from the HEALTHII directed payment program.

CMS data used for Medicare federal fiscal year 2024 payments shows that ten Arizona hospitals were

¹⁰ Budryk, Zack. “Micro-hospitals Offer Alternative to Urgent Care Model.” Fierce Healthcare. 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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penalized due to the hospital acquired condition (HAC) reduction program and nine were penalized in the current federal fiscal year 2025.¹³

CMS's Final Rule published May 10, 2024, made significant changes to Medicaid managed care State Directed Payments requirements, including the use of the Average Commercial Rate (ACR) as the upper limit for these payment levels, which will impact reimbursement methodology.¹⁴ Another issue to consider for HFY 2024 and HFY 2025 is the potential impact on uncompensated care from the fluctuations in Medicaid enrollment due to end of the pandemic-related continuous coverage provisions in March of 2023.¹⁵

AHCCCS is analyzing the impacts of H.R. 1, the "One Big Beautiful Bill", signed into law on July 4, 2025, as Public Law 119-21, on Medicaid funding for Arizona hospitals, including mandatory work requirements, reductions to the alternative financing mechanism state provider tax (assessments), reductions to state-directed payments, and the establishment of a "Rural Health Fund" for impacted rural facilities. AHCCCS anticipates that the numbers of Arizonans without health insurance will increase significantly, causing Arizona hospitals to bear a greater burden. Internal estimates of increases in uninsured Arizonans between Medicaid cuts and Affordable Care Act subsidy phase-outs show that several hundred thousand Arizonans could be without health insurance.

The CMS 2026 proposed rule for Outpatient Fee Schedule eliminates the Inpatient Only List over three years, allowing more surgical procedures to be done on an outpatient basis.¹⁶ The proposed rule also expands payment reductions for site neutrality for services done in provider-based clinics.

Finally, Medicare funding may also be reduced due to provisions of the Statutory Pay-As-You-Go Act of 2010 for sequestration when the federal budget deficit exceeds statutory limits.^{17 18} The above changes, if implemented, would affect health care coverage for a broad population besides Medicaid recipients.

¹³ Hospital-Acquired Condition (HAC) Reduction Program
<https://data.cms.gov/provider-data/dataset/yq43-i98g>

¹⁴ Medicaid Program; Medicaid and Children's Health Insurance Program (CHIP) Managed Care Access, Finance, and Quality
<https://www.federalregister.gov/documents/2024/05/10/2024-08085/medicaid-program-medicare-and-childrens-health-insurance-program-chip-managed-care-access-finance>

¹⁵ <https://www.azahcccs.gov/Resources/Downloads/PopulationStatistics/HistoricPopulationDataforJuly1985toCurrent.pdf>

¹⁶ <https://www.cms.gov/newsroom/fact-sheets/calendar-year-2026-hospital-outpatient-prospective-payment-system-opps-and-ambulatory-surgical>

¹⁷ <https://www.cbo.gov/system/files/2025-05/61423-PAYGO.pdf>

¹⁸ Norman J. Ornstein, "Medicaid Cuts? Yes. But the GOP Is Quietly Cutting Medicare, Too"
https://newrepublic.com/article/197992/republican-trump-budget-bill-cuts-medicare-too?utm_source=newsletter&utm_medium=email&utm_campaign

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CONCLUSION

The HFY 2023 and HFY 2024 hospital uncompensated cost, operating margins, and net income margin data, and the changes observed year-over-year, continue to provide useful information when evaluating hospital finances and the impact of AHCCCS-related changes. In the aggregate, hospital uncompensated care as a percentage of total expenses increased from 2.2% in HFY 2023 to 2.4% in HFY 2024. Net operating margins increased from 6.1% to 9.2%. Additionally, the percentage of hospitals with a positive operating margin increased from HFY 2023 to HFY 2024, from 73.0% to 81.7%.

It is important to be aware that the most recent data included in this report are from HFY 2024. Since hospitals have different fiscal years, the most recently reported years ended between June 2024 and December 2024.

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.

As patients lose Medicaid and ACA eligibility as early as 2026, hospitals will begin to see increased bad debt and charity care costs. Because the implementation of the healthcare provisions of the H.R.1 is delayed over the next few years, hospitals may be able to mitigate some of the financial impact through operational changes. AHCCCS will continue to monitor the financial status of Arizona hospitals and impacts on Medicaid patient access.

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APPENDIX A

Medicaid Volume < 25%

Arizona Specialty Hospital (Arizona Orthopedic Surgical Specialty 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 West
Benson Hospital
Canyon Vista Medical Center
Chandler Regional Medical Center
Western Regional - Cancer Treatment Center of America
Copper Queen Community Hospital
Cornerstone Hospital of Southeast Arizona
HonorHealth Deer Valley Medical Center
Dignity Health East Valley Rehabilitation Hospital - Gilbert
Dignity Health East Valley Rehabilitation Hospital
East Valley ER & Hospital
Encompass Health Valley of the Sun Rehabilitation Hospital, LLC
Encompass Health Rehabilitation Hospital of Scottsdale
Encompass Health Rehabilitation Hospital of East Valley
Encompass Health Rehabilitation Hospital of Northwest Tucson
Encompass Health Rehabilitation Institute of Tucson
Exceptional Health Care Maricopa (Maricopa Community Hospital)
Exceptional Health Care Yuma (Yuma Community Hospital)
Havasupai Regional Medical Center
HonorHealth Rehabilitation Hospital
HonorHealth Scottsdale Osborn Medical Center
HonorHealth Scottsdale Shea Medical Center
HonorHealth Scottsdale Thompson Peak Medical Center
HonorHealth Sonoran Crossing Medical Center
La Paz Regional Hospital, Inc.
Mayo Clinic Arizona
Mercy Gilbert Medical Center
Mountain Valley Regional Rehabilitation Hospital
Northern Cochise Community Hospital
Northwest Medical Center
Northwest Medical Center Sahuarita
OASIS Hospital
Oro Valley Hospital
PAM Rehabilitation Hospital of Surprise (formerly Cobalt)
Rehabilitation Hospital of Northern Arizona
Reunion Rehabilitation Hospital Peoria
Select Specialty Hospital Tucson Northwest (formerly Curahealth Tucson)
Select Specialty Hospital - Phoenix

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Select Specialty Hospital - Phoenix Downtown
The CORE Institute Specialty Hospital
Western Arizona Regional Medical Center
White Mountain Communities Hospital
Wickenburg Community Hospital
Yavapai Regional Medical Center / YRMC East
Yuma Rehabilitation Hospital

Medicaid Volume 25% - 50%

Abrazo Arrowhead Campus
Abrazo Arizona Heart Hospital
Abrazo Central Campus
Abrazo Scottsdale Campus
Abrazo Surprise
Abrazo West Campus
Dignity Health 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 Ocotillo Medical Center
Banner University Medical Center Phoenix
Banner University Medical Center Tucson
Banner University Medical Center South
Flagstaff Medical Center
Holy Cross Hospital
HonorHealth John C. Lincoln Hospital
Kingman Regional Medical Center
Little Colorado Medical Center
Mt. Graham Regional Medical Center
Reunion Rehabilitation Hospital Phoenix
St. Joseph's Hospital Medical Center
St. Joseph's Hospital (Tucson)
St. Joseph's Westgate Medical Center
St. Mary's Hospital & Health Care Center
Summit Healthcare Association
The Guidance Center
Tucson Medical Center
Tucson Medical Center Rincon
Valley View Medical Center
Verde Valley Medical Center
Yuma Regional Medical Center (Onvida Health)

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Medicaid Volume > 50%

Aurora Behavioral Health System
Avenir Behavioral Health Center
Aurora Behavioral Healthcare-Tempe
Banner Behavioral Health Hospital
Copper Springs Hospital
Cornerstone Behavioral Health El Dorado
Destiny Springs Healthcare, LLC
Haven Senior Horizons
Oasis Behavioral Health Hospital
Page Hospital (Banner)
Palo Verde Behavioral Health
Phoenix Children's Hospital
Phoenix Medical Psychiatric Hospital, LLC
Quail Run Behavioral Health
Sonora Behavioral Health Hospital
The Healing Place (formerly Windhaven Psychiatric Hospital)
Valley Hospital
Valleywise Health Medical Center
Via Linda Behavioral Hospital

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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 Scottsdale Campus
- Abrazo Surprise Hospital
- Abrazo West Campus
- 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
Mercy Gilbert Medical Center
St. Joseph's Hospital and Medical Center
St. Joseph's Westgate Medical Center
Yavapai Regional Medical Center / YRMC East

Encompass Health

Encompass East Valley Rehabilitation Hospital
Encompass Rehabilitation Hospital of Southern Arizona (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 Florence Medical Center
HonorHealth John C. Lincoln Medical Center
HonorHealth Mountain Vista Medical Center
HonorHealth Scottsdale Osborn Medical Center / Greenbaum Specialty Surgical Hospital
HonorHealth Scottsdale Shea Medical Center
HonorHealth Scottsdale Thompson Peak Medical Center
HonorHealth Sonoran Crossing Medical Center
HonorHealth Tempe Medical Center

Lifepoint Health

Canyon Vista Medical Center
Copper Springs Hospital / Copper Springs Hospital East
Cornerstone Behavioral Health El Dorado
Dignity Health East Valley Rehabilitation Center Gilbert
Dignity Health East Valley Rehabilitation Hospital
Havasui Regional Medical Center
Valley View Medical Center

Select Medical

Banner Rehabilitation Hospital East
Banner Rehabilitation Hospital Phoenix
Banner Rehabilitation Hospital West
HonorHealth Rehabilitation Hospital
Select Specialty Hospital Tucson East
Select Specialty Hospital Tucson Northwest
Select Specialty Hospital- Phoenix
Select Specialty Hospital- Phoenix Downtown

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TMC Health

Benson Hospital
Northern Cochise Community Hospital
Tucson Medical Center
Tucson Medical Center Rincon

Universal Health Services

Palo Verde Behavioral Health
Quail Run Behavioral Health
Valley Hospital
Via Linda Behavioral Health

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Appendix C – See separate attachment

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Appendix D

Total COVID-19 Provider Relief Funds as reported on 2024 Medicare Cost Reports:

Hospitals	Total
VALLEYWISE HEALTH MEDICAL CENTER	\$276,716.00
WHITE MOUNTAIN REGIONAL HOSPITAL	\$40,000.00