October 1, 2021

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

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

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

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

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

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

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

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

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

Sincerely,

Jami Snyder
Director

cc: Christina Corieri, Governor's Office, Senior Advisor to the Governor

Report on Uncompensated Hospital Costs and Hospital Profitability

October 2021

Director, Jami Snyder

EXECUTIVE SUMMARY

From Hospital Fiscal Year (HFY) 2011 to HFY 2013, hospital uncompensated care grew from $500 million to almost $900 million. This increase was followed by a sharp decline from HFY 2013 to HFY 2015. By HFY 2015, uncompensated care fell below its HFY 2011 levels and has continued at this lower rate. These fluctuations were due in part to state budgetary changes implemented during this time period. Of particular importance was the imposition of a freeze on childless adult enrollment effective July 2011, and its restoration and Medicaid expansion in January 2014.

Despite those earlier, large increases in uncompensated care, total net operating profit remained relatively stable, fluctuating between $554 million and $765 million from HFY 2011 to HFY 2016. This was achieved with the help of the AHCCCS Safety Net Care Pool program, a temporary program designed to help mitigate the increase in uncompensated care associated with the enrollment freeze. In HFY 2017, net operating profit grew to $919 million and has exceeded $1.1 billion since HFY 2018. Due to the funding from the federal COVID-19 provider relief fund and the newly created directed payment program, HFY 2020 exceeded expectations with a net operating profit of $1.5 billion, recording the largest profit and largest year to year increase since AHCCCS began writing these reports. 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 healthcare industry as a whole.

Operating profitability continues to vary considerably by hospital type. Both net operating margin and total margins for rehabilitation and psychiatric hospitals decreased in HFY 2020 while net operating margins for long term acute care hospitals increased over 7% in HFY 2020. Critical access hospitals saw a 1.5% decrease in net operating margin from HFY 2019 to HFY 2020. Long term care hospitals saw the largest net operating margins increase, from 1.5% in HFY 2019 to 9.5% in HFY 2020.

In HFY 2020, the hospital financial reports will reflect two significant circumstances that have a direct impact on their financial status. The COVID-19 public health emergency emerged in March 2020. A majority of the hospitals report on a calendar year resulting in 9 months of COVID impacts to their financial position. 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 anually to provide directed payments from AHCCCS to hospitals beginning in Federal Fiscal Year (FFY) 2021 (October 1 2020 - September 20, 2021). The FFY 2021 net payment totaled approximately $900 million. As a result, hospitals that report on a calendar year will reflect a quarter of this payment in the financials in HFY 2020.

BACKGROUND

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

> AHCCCS uncompensated care; hospital assessment; reports
> A. On or before October 1, 2014, and annually thereafter, the Arizona health care cost containment system administration shall report to the speaker of the house of representatives, the president of the senate, the chairpersons of the appropriations committees of the house of representatives and the senate and the directors of the joint legislative budget committee and governor's office of strategic planning and budgeting on the change in uncompensated hospital costs experienced by hospitals in this state and hospital profitability during the previous fiscal year.

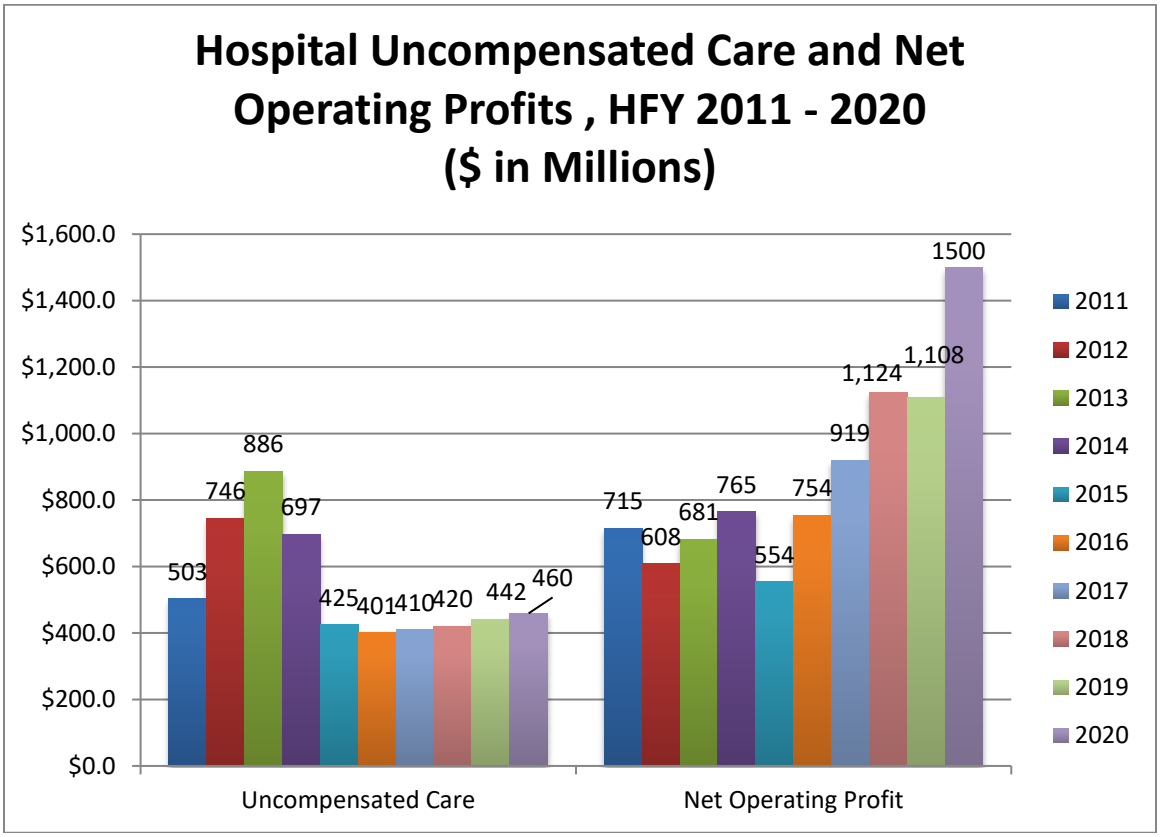
	Hospital Profitability and Uncompensated Care, HFY 2011-2020 ($ in Millions)										
	2011[1]	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2019-2020 Change**
Total Uncompensated Care	$503.3	$745.7	$885.9	$697.4	$425.3	$401.5	$410.1	$419.7	$441.8	$460.0	$18.2
Average Uncompensated Care Costs	$5.8	$8.0	$8.9	$7.0	$4.1	$3.8	$3.9	$4.3	$4.2	$4.3	$0.1
Uncompensated Care Costs as a % of Total Expenses	3.8%	5.8%	6.7%	4.7%	2.9%	2.6%	2.5%	2.5%	2.5%	2.5%	0.0%
Total Net Operating Profitability	$714.6	$607.6	$681.1	$765.2	$554.0	$753.6	$919.0	$1,124.4	$1,108.0	$1,500.7	$392.7
Average Operating Profitability	$8.1	$6.8	$6.9	$7.7	$5.4	$7.0	$8.8	$11.5	$10.8	$13.9	$3.1
Average Operating Margin	5.1%	4.5%	4.9%	4.9%	3.6%	4.6%	5.3%	6.3%	5.8%	7.4%	1.6%
Hospitals with a Positive Operating Margin	79.5%	73.3%	64.6%	64.0%	63.1%	59.8%	71.2%	73.5%	69.9%	74.1%	4.2%
Average Total Income Margin	5.1%	5.1%	6.0%	5.5%	3.9%	5.3%	6.8%	7.0%	6.9%	9.4%	2.5%
Average Occupancy Rate	62.0%	60.0%	59.0%	59.6%	60.8%	60.0%	60.2%	65.5%	63.2%	62.2%	(1.0)%

Hospital-reported data shows that total uncompensated care grew from HFY 2019 to HFY 2020. Total net hospital profitability was above $1 billion for the third straight year, and exceeded $1.5

[1] 2011 figures taken from the 2013 Hospital Uncompensated Costs and Hospital Profitability Report. These numbers were not audited by AHCCCS.

billion for the first time. During that time frame, average operating profitability and average total income margin saw increases as well.

From HFY 2011 to 2013, total uncompensated care grew from approximately $500 million to almost $900 million and then started a sharp decline, falling to just over $400 million and remaining steady in HFYs 2015-2020. Meanwhile, total net operating profits doubled from HFY 2015 to HFY 2018, increasing from $554 million in HFY 2015 to $1.1 billion in HFY 2018, at an average annual increase of 27%. After remaining at around $1.1 billion for HFY 2019, total net operating profits increased 35% to 1.5 billion in HFY 2020, with the largest year to year increase seen so far in the history of this report.



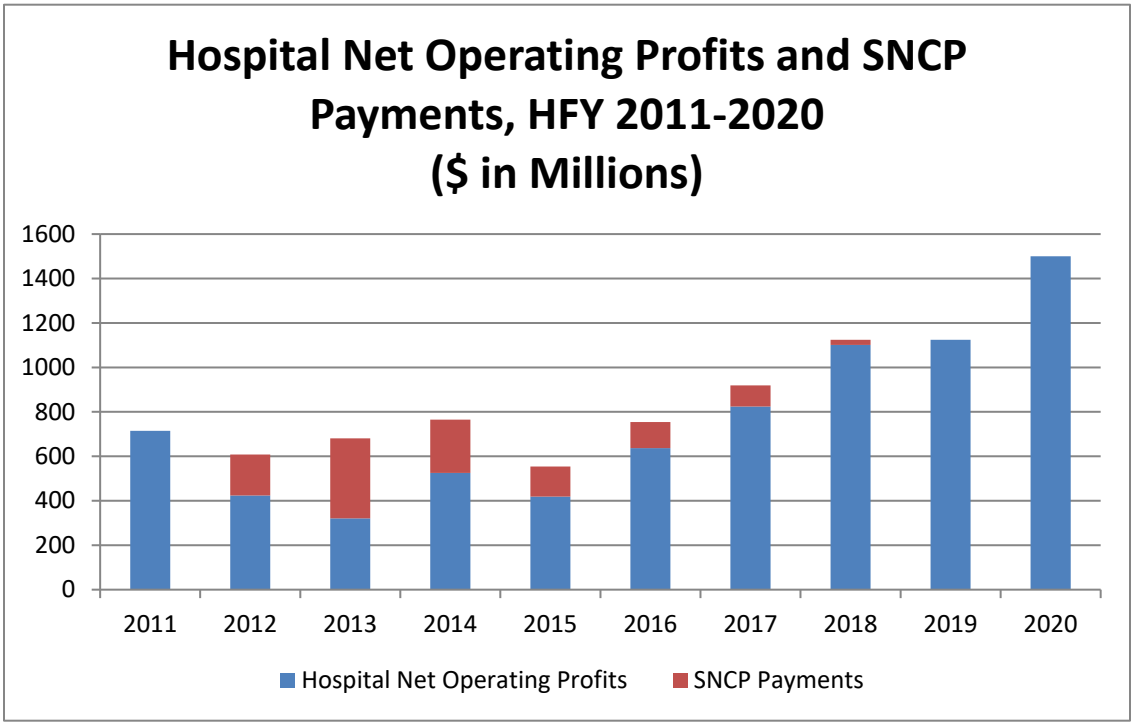
After a period of retrenchment due to the Great Recession, hospital finances have recently improved due to a number of different AHCCCS budgetary changes:

- The imposition of a freeze on childless adult enrollment, effective July 8, 2011, and its restoration on January 1, 2014.
- The implementation and expansion of several short-term funding mechanisms, such as the Safety Net Care Pool (SNCP) program designed to help mitigate the increase in uncompensated care associated with the enrollment freeze.

- The expansion of AHCCCS to adults from 106-138% of the federal poverty level beginning January 1, 2014.
- The implementation of a hospital assessment beginning on January 1, 2014. The hospital assessment collected $329.3 million in SFY 2020.
- The January 1, 2016, AHCCCS increase to the All-Patient Refined Diagnosis Related Groups (APR-DRG) for high-acuity pediatric cases, which increased inpatient reimbursement by an estimated $20 million annually for those cases. A second increase for an additional estimated $20 million annually was made on January 1, 2017.
- The implementation of Differential Adjusted Payments (DAPs), effective October 1, 2016, increasing rates for acute care hospital providers who met established quality performance criteria. The DAP criteria was expanded to include all hospitals on October 1, 2017. Effective October 1, 2018, hospitals had the opportunity to receive a 3.0% DAP compared to the previous level of .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%.
- The modification of the methodology for calculating indirect Graduate Medical Education (GME) costs resulting in an approximate $100 million annual increase in indirect GME payments, beginning with the 2016 GME payment. GME payments have continued to steadily increase post-2016.
- The rebases of the APR-DRG reimbursement system, including a third increase to the policy adjustor for high-acuity pediatric cases and the addition of two new policy adjustors, for a net projected increase of $35 million annually for inpatient reimbursement effective January 1, 2018.
- The creation of the Health Care Investment Fund (HCIF) in October 1, 2020 to support a directed program payment called Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII). In FFY 2021, the HEALTHII payments will create a $900 million net increase for hospitals in Arizona.

It is important to note the role that SNCP played over the years. In Federal Fiscal Year (FFY) 2012, SNCP payments were made to four hospitals. The program was then expanded for FFY 2013 to include nine additional hospitals through a City of Phoenix assessment. By the third year of the program, 17 hospitals had received SNCP payments. Total SNCP payments increased from approximately $185 million for FFY 2012 to $510 million for FFY 2013, a $325 million increase. With the exception of payments to Phoenix Children's Hospital (PCH), SNCP payments ended on December 31, 2013. Consequently, SNCP payments fell to $240 million in FFY 2014, $135 million in FFY 2015, $117 million in FFY 2016, $95 million in FFY 2017, and $23 million in FFY 2018. The Centers for Medicare and Medicaid Services (CMS) ended funding for the program after December 31, 2017. It is reflected in the net operating profits and SNCP payment comparison chart, on the next page, that SNCP payments were reduced and ended after this date.

Due to the differences between hospital and federal fiscal years, as described in more detail in the next section, the reporting of SNCP payments on hospitals' Uniform Accounting Reports (UARs) does not always match the FFY in which the payments were made. Additionally, the nine hospitals that received a payment where the state match was provided by the City of Phoenix assessment reduced their net operating revenues by the amount they contributed for the assessment. After adjusting the net operating revenues for net SNCP payments, hospitals reported net operating profit falling from $715 million in HFY 2011 to $321 million in HFY 2013 and then increasing to $1.1 billion by HFY 2018, jumping to 1.5 billion for HFY 2020. A comparison is displayed in the following chart.



In 2020, the Arizona Legislature established the HCIF through the passage of HB 2668. The annual HCIF assessment revenue, when matched with federal funds, will result in hospitals receiving quarterly directed payments which, in FFY 2021, approximated $1.275 billion and, after accounting for the HCIF collection amount, reflects a net increase of approximately $902.3 million. The directed payments have been called Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII) payments. 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 would be reflecting one quarterly HEALTHII payment. The full impact of these additional reimbursement will be reflected in the data presented in next year's report.

DEFINITIONS, DATA SOURCES, AND LIMITATIONS

Under the authority of Arizona Revised Statutes § 36-125.04, Arizona Administrative Code (A.A.C.), Title 9, Chapter 11 specifies requirements for hospital financial reporting to the State of Arizona. With the exception of Indian Health Services hospitals and tribally owned or operated hospitals, Arizona hospitals are required to submit annual audited financial statements, the UAR, and hospital charge master rates and changes to the Arizona Department of Health Services (ADHS). AHCCCS used hospital-reported information in the UAR for the analysis conducted for this report. One hospital was not a Medicaid provider, and was therefore omitted from this report. Additionally, AHCCCS excluded five hospitals for this report in HFY 2020 (Cobalt Rehabilitation Hospital, Curahealth–Tucson, Curahealth-Phoenix, KPC Promise Hospital, and Changepoint Psychiatric) since the hospitals did not submit the UAR by August 21, 2021, the cut-off date established by AHCCCS in order to complete this report timely. Two hospitals that submitted a UAR in 2019 subsequently closed (St. Luke's Medical Center and Hacienda Children's Hospital) and are therefore not included in the analysis of HFY 2020 UAR data.

The most recent complete year for which UAR data was available was HFY 2020. 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' worth 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.

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

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

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

The cost-to-charge ratio averaged 19.7% in HFY 2019 and 20.5% in HFY 2020. That is, for every one dollar of hospital charges, hospital costs averaged approximately 20.5 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

Statistics 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 $442 million in HFY 2019 and increasing to $460 million in HFY 2020. Uncompensated care costs for the two most recent reporting years are noted in Table 1 (in total dollars):

Table 1—Uncompensated Care Costs, All Hospitals

	2019	2020	Percentage Change
Total Uncompensated Care Costs	$441.8 Million	$460.0 Million	4.1%
Statewide Average Uncompensated Care Costs Per Hospital	$4.2 Million	$4.3 Million	(0.7)%
Lowest Uncompensated Care Costs *	$36,782	$(26,039)	
Highest Uncompensated Care Costs	$40.5 Million	$62.5 Million	

* Excludes hospitals which do 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 remained stable during this period as shown in Table 2.

Table 2—Percent of Uncompensated Care, All Hospitals

	2019	2020	Percentage Change
Average % of Uncompensated Care	2.46%	2.46%	0.0%
Lowest % of Uncompensated Care Costs	0.14%	(0.11)%	
Highest % of Uncompensated Care	9.35%	21.93%	

3. Operating Profitability

Operating profitability continues to range greatly, from significant losses to significant gains. In total, Arizona hospitals included in this analysis had operating profits increase by $394 million and the percentage of hospitals with a profit slightly increased to 74.1%, higher than the previous year's 69.9%.

Table 3—Operating Profitability, All Hospitals

	2019	2020	Percentage Change
Total Profitability	$1,108.0 Million	$1,500.7 Million	35.4%
Statewide Average Profitability	$10.8 Million	$13.9 Million	29.2%
Lowest Profitability/(Highest Loss)	($77.3) Million	($129.2) Million	
Highest Profitability	$161.8 Million	$196.4 Million	
Percent of Hospitals with a Profit	69.9%	74.1%	

4. Net Operating Margin

Net operating margin, defined as profit/loss as a percentage of total revenue, averaged 5.8% across all hospitals in HFY 2019 and 7.4% in HFY 2020, 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, 69.9% of hospitals in HFY 2019 and 74.1% in HFY 2020 had a positive operating margin.

Table 4—Net Operating Margin, All Hospitals

	2019	2020	Percentage Change
Average Net Operating Margin	5.8%	7.4%	27.8%
Lowest Net Operating Margin*	(81.6)%	(23.3)%	
Highest Net Operating Margin	36.5%	61.9%	
Hospitals with Positive Margin	69.9%	74.1%	

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

5. Total Margin

As discussed earlier, total margin provides another way to evaluate the financial status of hospitals, as it includes non-operating revenues and expenses in addition to operating revenues and expenses. Average total margin is defined as statewide operating and non-operating profit/loss as a percentage of total operating and non-operating revenue. Average total margin was 6.9% across all hospitals in HFY 2019, increasing to 9.4% in HFY 2020, as shown in Table 5. Historically, national data suggests that Arizona hospitals have previously experienced lower total operating margins than other hospitals nationally. For example, the nationwide aggregate total operating margin in 2016 was 7.8% for all hospitals, while Arizona's average total operating margin for the same period was 4.6%.[2]

Table 5—Total Margin, All Hospitals

	2019	2020	Percentage Change
Average Total Margin	6.9%	9.4%	35.6%
Lowest Total Margin *	(81.6)%	(23.3)%	
Highest Total Margin	33.3%	31.8%	
Hospitals with Positive Margin	71.8%	80.6%	

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

6. Occupancy Rates

In addition to the items specifically requested in legislation, hospital occupancy rates may also be of interest in helping provide context to these figures. Table 6 shows a minor decrease from HFY 2019 to HFY 2020, with occupancy rates declining from 63.2% to 62.2%. It is also interesting to note that one hospital in HFY 2020 reported an occupancy rate of 100% or higher.

Table 6—Occupancy Rates, All Hospitals

	2019	2020	Percentage Change
Average Occupancy Rate	63.2%	62.2%	(1.6)%
Lowest Occupancy Rate	1.2%	1.6%	
Highest Occupancy Rate	99.2%	100.1%	

7. Days in Accounts Receivable

[2] www.aha.org/guidesreports/2018-05-23-trendwatch-chartbook-2018-chapter-4-trends-hospital-financing

Days in accounts receivable may also be of interest as an additional variable to provide context to the financial status of Arizona hospitals. 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 69 in HFY 2019 and 67 in HFY 2020. Fitch Ratings reports a national average accounts receivable of 44.6 days for not-for-profit health systems in FY 2020.[3]

Table 7—Days in Accounts Receivable, All Hospitals

	2019	2020	Percentage Change
Average Days in Accounts Receivable	69	67	(2.9)%
Fewest Days	8	14	
Most Days *	218	263	

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

DATA BY HOSPITAL TYPES

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

Hospital Peer Types

Table 8 breaks out 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, 2021. For purposes of this report, AHCCCS has categorized hospitals which do not fall into any of the other 5 categories as general acute care hospitals. Slightly more than half of the hospitals are classified as general acute care hospitals, but over 90% of the revenues are from general acute care hospitals.

In HFY 2019 and HFY 2020, the average by hospital peer type for hospital uncompensated care as a percentage of total expenses ranged from 0.3% to 2.7% in HFY 2019 and 0.5% to 3.2% in HFY 2020. Critical Access hospital peer types remained the highest in both HFY 2019 and HFY 2020. Uncompensated care percentage of total expenses exceed 3.0% for the Critical Access hospital peer types in HFY 2020 while it briefly dipped below 3% in HFY 2019. Two types experienced rates

[3] https://www.beckershospitalreview.com/finance/19-key-financial-benchmarks-for-health-systems.html

less than 1% in both years (short term specialty and long term acute care). Only one peer type, short-term specialty, experienced a decrease in uncompensated care from HFY 2019 to HFY 2020 (from 0.7% to 0.5%).

There continues to be a variance in net operating profit (as well as total profit) between the different peer groups. In HFY 2019, the range in net operating margin was from 1.5% (long term acute care) to 17.7% (short-term specialty). In HFY 2020, the range in net operating margin increased, going from 4.3% (critical access) to 18.2% (short-term specialty). Short-term specialty hospitals remain the peer group with the highest 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 2020.[4] Some of the changes in net operating profitability, according to representatives of Arizona long term acute care hospitals, are due to changes in the way CMS began reimbursing long term acute care hospitals beginning in fiscal year 2016. As a condition of reimbursement, CMS now requires patients admitted to a long-term care hospital to have spent at least three days in the intensive care unit, in the coronary care unit, or on a ventilator. The changes are dramatic enough that Standard & Poor's predicted in 2016 that a "material portion" of long-term acute care hospitals nationwide would close over the next few years.[5]

The long-term care acute hospital group collectively reported negative net operating profit in each year from HFY 2012 to HFY 2017, and no more than 33% of the individual hospitals in this group reported a positive operating margin in any year of this period. HFY 2018, however, marked the first year in which the long-term acute care hospital group reported a positive net operating profit since AHCCCS has been issuing this report. In HFY 2019, the net operating profit continued to increase, marking a 2.1% increase in net operating margin as well. HFY 2020 continued to follow the trend, with a 9.5% net operating margin. This seems to indicate that, as a result of the CMS requirement, the most financially vulnerable long term acute care (LTAC) hospitals are closing, leaving the remaining LTAC hospitals with a higher average profitability.

While Arizona has lost long term care hospitals in recent years, the number of psychiatric hospitals and rehabilitation hospitals has grown. Three new psychiatric hospitals have opened since the last report. Copper Springs East and Phoenix Medical Psychiatric Hospital are located in Maricopa County, while Medical Behavioral Hospital of Northern Arizona is in Yavapai County. Two new rehabilitation hospitals have also opened since the previous year.[6]

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[4] Curahealth Tucson, Curahealth Northwest, and KPC Promise Hospital are not included in the 2020 data due to untimely submission. The calculations of this report have three hospitals listed as long term acute care.

[5] www.fiercehealthcare.com/finance/s-p-long-term-care-hospitals-hit-hard-by-medicare-payment-changes

[6] Cobalt Rehabilitation Hospital is not included in the 2020 data due to untimely submission. The calculations of this report have twelve hospitals listed as Rehabilitation.

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

	Critical Access	Long Term	Rehabilitation	Psychiatric	Short Term Specialty	General Acute Care
Number of Hospitals which Submitted a UAR (HFY 2020)	11	3	12	20	5	60
2019 Uniform Accounting Report						
Occupancy Rate	29.6%	48.2%	69.9%	79.7%	38.7%	62.7%
Total Gains, Revenues, and Other Support	$ 368,778,824	$ 80,258,461	$ 222,745,038	$ 351,565,190	$ 355,560,451	$ 17,694,138,502
Total Expenses	$ 347,554,844	$ 79,025,826	$ 189,523,736	$ 301,752,432	$ 292,475,532	$ 16,754,703,782
Net Operating Profit(Loss)	$ 21,223,980	$ 1,232,635	$ 33,221,301	$ 49,812,758	$ 63,084,919	$ 939,434,720
Net Operating Margin	5.8%	1.5%	14.9%	14.2%	17.7%	5.3%
Total Income Margin	6.7%	0.6%	11.6%	14.2%	17.5%	6.6%
Days in Accounts Receivable	62	71	49	68	45	69
Cost to Charge Ratio	28.4%	22.8%	49.3%	34.9%	17.0%	19.4%
Cost of Bad Debts	$ 7,496,516	$ 226,126	$ 693,252	$ 4,121,152	$ 1,298,784	$ 189,525,329
Charity Cost	$ 1,941,652	$ -	$ 409,383	$ 1,077,973	$ 854,904	$ 225,111,691
Uncompensated Care Cost	$ 9,438,168	$ 226,126	$ 1,102,635	$ 5,199,125	$ 2,153,688	$ 414,637,020
Uncompensated Care Cost as a % of Total Expenses	2.7%	0.3%	0.6%	1.7%	0.7%	2.5%
2020 Uniform Accounting Report						
Occupancy Rate	28.2%	71.8%	59.7%	73.4%	34.6%	62.1%
Total Gains, Revenues, and Other Support	$ 377,387,405	$ 70,412,499	$ 230,343,464	$ 413,824,148	$ 355,316,282	$ 18,765,704,989
Total Expenses	$ 361,143,316	$ 63,734,159	$ 207,699,193	$ 371,536,472	$ 290,810,099	$ 17,417,342,902
Net Operating Profit(Loss)	$ 16,244,089	$ 6,678,340	$ 22,644,272	$ 42,287,676	$ 64,506,184	$ 1,348,362,087
Net Operating Margin	4.3%	9.5%	9.8%	10.2%	18.2%	7.2%
Total Income Margin	9.2%	9.0%	8.3%	10.3%	17.9%	9.2%
Days in Accounts Receivable	55	77	56	62	51	68
Cost to Charge Ratio	32.4%	19.4%	50.0%	37.4%	17.5%	20.1%
Cost of Bad Debts	$ 8,874,788	$ 287,532	$ 895,421	$ 6,929,275	$ 835,030	$ 175,460,195
Charity Cost	$ 2,675,420	$ -	$ 1,489,174	$ 1,623,284	$ 705,887	$ 260,270,828
Uncompensated Care Cost	$ 11,550,209	$ 287,532	$ 2,384,594	$ 8,552,559	$ 1,540,918	$ 435,731,023
Uncompensated Care Cost as a % of Total Expenses	3.2%	0.5%	1.1%	2.3%	0.5%	2.5%
CHANGE: 2019 to 2020						
Average Occupancy Percentage Points	-1.4%	23.6%	-10.3%	-6.3%	-4.2%	-0.6%
Total Gains, Revenues, and Other Support	$ 8,608,581	$ (9,845,962)	$ 7,598,427	$ 62,258,958	$ (244,169)	$ 1,071,566,487
Total Expenses	$ 13,588,472	$ (15,291,667)	$ 18,175,456	$ 69,784,040	$ (1,665,434)	$ 662,639,120
Net Operating Profit(Loss)	$ (4,979,891)	$ 5,445,705	$ (10,577,030)	$ (7,525,082)	$ 1,421,265	$ 408,927,367
Net Operating Margin	-1.5%	7.9%	-5.1%	-4.0%	0.4%	1.9%
Total Margin	2.5%	8.4%	-3.3%	-3.9%	0.4%	2.7%
Average Days in Accounts Receivable	-7	6	7	-6	6	-1
Cost to Charge Ratio	4.0%	-3.4%	0.6%	2.4%	0.5%	0.7%
Cost of Bad Debts	$ 1,378,272	$ 61,406	$ 202,168	$ 2,808,123	$ (463,754)	$ (14,065,134)
Charity Cost	$ 733,768	$ -	$ 1,079,791	$ 545,312	$ (149,017)	$ 35,159,137
Uncompensated Care Cost	$ 2,112,041	$ 61,406	$ 1,281,959	$ 3,353,434	$ (612,770)	$ 21,094,003
Uncompensated Care Cost as % of Total Expenses	0.5%	0.2%	0.6%	0.6%	-0.2%	0.0%

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 2020, approximately 70% of hospitals were located in urban areas, and about 84% of total gains, revenues, and other support went to urban hospitals. From HFY 2019 to HFY 2020, urban hospitals uncompensated care remained steady at 2.3% for the third year, while rural hospitals increased to 3.3%.

As a whole, rural hospitals averaged higher net operating margins and total margins than urban hospitals; in HFY 2020, rural hospitals had a net operating margin of 7.9% compared to 7.3% for urban hospitals. In HFY 2020, total income margins were 9.8% for rural hospitals and 9.3% for urban hospitals. Urban hospitals did have a higher growth in both net operating and total income margins between HFY 2019 and HFY 2020, averaging a 2.1% and 3.0% increase, respectively.

Critical access hospital (CAH) is a federal designation given to certain rural hospitals which have no more than 25 acute care inpatient beds, are located more than a 35 mile drive from another hospital, offer emergency services 24/7, and have an annual average length of stay of 96 hours or fewer for acute care patients. Profit levels for CAHs were lower than the average for all rural hospitals, at 4.3% net operating margin and 9.2% total income margin for HFY 2020.

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.[7] Being a non-profit hospital does not mean that a hospital cannot make a profit. In fact, the most profitable hospitals in both HFY 2019 and HFY 2020 were the non-profit hospitals, as a group.

Mayo Clinic had the largest net operating profit of $161 million in HFY 2019. Phoenix Children's Hospital had a net operating profit of $196 million in HFY 2020. As a whole, non-profit hospitals had a net operating profit of approximately $956 million in HFY 2019 and almost $1.2 billion in HFY 2020. In comparison, for-profit hospitals net operating profit was approximately $151 million and $305 million in HFYs 2019 and 2020, respectively.

These dollar figures, however, must be viewed in the context of hospital size and business model. While non-profit hospitals constitute approximately half of all hospitals in Arizona, they received

[7] 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.

approximately 83% of total gains, revenues, and other support (in part because they are typically much larger than the types of hospitals that are more often for-profit). For-profit hospitals are more likely to be rehabilitation, psychiatric, short-term specialty, or long term acute care hospitals, whereas the majority of non-profit hospitals are 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%.[8]

The percentage of uncompensated care in both years was lowest at hospitals with Medicaid volume less than 25%, with uncompensated care at 1.8% in HFY 2019 and 1.7% HFY 2020. Hospitals with Medicaid volume above 50% had the largest amounts of uncompensated care: 4.8% in HFY 2019 and 4.4% in HFY 2020. As explained earlier, uncompensated care in this report is defined as the sum of charity care and the provision of bad debt, so the uncompensated care would not include any shortfall associated with Medicaid payments and the cost of services.

In addition to uncompensated care costs, there continues to be a strong correlation between Medicaid volume and net operating margin. In both years, hospitals with Medicaid volume less than 25% had the highest net operating margins (8.6% in HFY 2019 and 8.4% in HFY 2020). Hospitals with Medicaid volume greater than 50% collectively had the lowest net operating margins ((0.3)% in HFY 2019 and 4.0% in HFY 2020), although it should be noted they had the largest year-to-year increase of the three categories.

[8] 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 2020)	79	32	58	53	17	36	58
2019 Uniform Accounting Report							
Occupancy Rate	65.8%	48.6%	55.9%	66.7%	68.6%	67.2%	58.2%
Total Gains, Revenues, and Other Support	$ 15,906,530,482	$ 3,166,515,984	$ 3,347,268,268	$ 15,725,778,198	$ 1,939,471,878	$ 9,615,263,845	$ 7,498,015,912
Total Expenses	$ 15,072,436,416	$ 2,892,599,736	$ 3,196,159,715	$ 14,768,876,437	$ 1,944,689,401	$ 9,143,656,675	$ 6,850,196,109
Net Operating Profit(Loss)	$ 834,094,066	$ 273,916,248	$ 151,108,553	$ 956,901,761	$ (5,217,523)	$ 471,607,170	$ 647,819,803
Net Operating Margin	5.2%	8.7%	4.5%	6.1%	-0.3%	4.9%	8.6%
Total Income Margin	6.3%	9.8%	3.6%	7.6%	7.3%	5.5%	8.8%
Days in Accounts Receivable	71	58	62	70	77	56	82
Cost to Charge Ratio	19.5%	21.1%	14.4%	21.5%	27.2%	19.6%	18.4%
Cost of Bad Debts	$ 150,062,244	$ 54,118,473	$ 38,765,846	$ 162,513,544	$ 29,508,546	$ 111,327,424	$ 64,586,544
Charity Cost	$ 200,445,369	$ 31,557,923	$ 11,507,771	$ 235,402,414	$ 63,083,876	$ 126,101,926	$ 55,811,915
Uncompensated Care Cost	$ 350,507,612	$ 85,676,396	$ 50,273,618	$ 397,915,958	$ 92,592,422	$ 237,429,350	$ 120,398,458
Uncompensated Care Cost as a % of Total Expenses	2.3%	3.0%	1.6%	2.7%	4.8%	2.6%	1.8%
2020 Uniform Accounting Report							
Occupancy Rate	64.9%	47.0%	58.1%	64.0%	67.3%	66.7%	55.0%
Total Gains, Revenues, and Other Support	$ 16,933,762,113	$ 3,279,226,675	$ 3,495,013,766	$ 16,717,975,022	$ 2,116,848,046	$ 10,594,517,169	$ 7,501,623,573
Total Expenses	$ 15,691,496,293	$ 3,020,769,847	$ 3,189,710,846	$ 15,522,555,294	$ 2,031,593,178	$ 9,811,236,960	$ 6,869,436,002
Net Operating Profit(Loss)	$ 1,242,265,820	$ 258,456,828	$ 305,302,920	$ 1,195,419,728	$ 85,254,868	$ 783,280,208	$ 632,187,571
Net Operating Margin	7.3%	7.9%	8.7%	7.2%	4.0%	7.4%	8.4%
Total Income Margin	9.3%	9.8%	7.5%	9.8%	11.7%	9.0%	9.3%
Days in Accounts Receivable	69	58	59	69	62	58	81
Cost to Charge Ratio	20.3%	21.7%	14.2%	22.6%	30.1%	20.0%	19.5%
Cost of Bad Debts	$ 123,783,021	$ 69,499,220	$ 28,818,783	$ 164,463,459	$ 32,347,095	$ 101,070,591	$ 59,864,555
Charity Cost	$ 236,991,409	$ 29,773,185	$ 21,662,919	$ 245,101,675	$ 56,908,783	$ 155,920,287	$ 53,935,525
Uncompensated Care Cost	$ 360,774,430	$ 99,272,406	$ 50,481,702	$ 409,565,133	$ 89,255,877	$ 256,990,878	$ 113,800,080
Uncompensated Care Cost as a % of Total Expenses	2.3%	3.3%	1.6%	2.6%	4.4%	2.6%	1.7%
CHANGE: 2019 to 2020							
Average Occupancy Percentage Points	-0.9%	-1.5%	2.2%	-2.7%	-1.3%	-0.5%	-3.3%
Total Gains, Revenues, and Other Support	$ 1,027,231,631	$ 112,710,691	$ 147,745,497	$ 992,196,824	$ 177,376,168	$ 979,253,324	$ 3,607,661
Total Expenses	$ 619,059,877	$ 128,170,111	$ (6,448,870)	$ 753,678,857	$ 86,903,777	$ 667,580,286	$ 19,239,893
Net Operating Profit(Loss)	$ 408,171,754	$ (15,459,420)	$ 154,194,367	$ 238,517,967	$ 90,472,392	$ 311,673,039	$ (15,632,232)
Net Operating Margin	2.1%	-0.8%	4.2%	1.1%	4.3%	2.5%	-0.2%
Total Margin	3.0%	-0.1%	3.9%	2.2%	4.4%	3.5%	0.5%
Average Days in Accounts Receivable	(2)	-	(3)	(1)	(15)	2	(1)
Cost to Charge Ratio	0.8%	0.7%	-0.2%	1.2%	2.9%	0.3%	1.1%
Cost of Bad Debts	$ (26,279,223)	$ 15,380,747	$ (9,947,064)	$ 1,949,915	$ 2,838,549	$ (10,256,833)	$ (4,721,988)
Charity Cost	$ 36,546,040	$ (1,784,738)	$ 10,155,148	$ 9,699,261	$ (6,175,093)	$ 29,818,361	$ (1,876,390)
Uncompensated Care Cost	$ 10,266,817	$ 13,596,009	$ 208,084	$ 11,649,175	$ (3,336,544)	$ 19,561,528	$ (6,598,378)
Uncompensated Care Cost as % of Total Expenses	0.0%	0.3%	0.0%	-0.1%	-0.4%	0.0%	-0.1%

HOSPITAL SYSTEMS

Finally, AHCCCS has presented hospital profitability and uncompensated care by hospital systems. Table 10 lists all eight 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 eight hospital systems in Table 10. Hospitals are included as part of a hospital system if they were in that system as of June 30, 2021, regardless of whether they were in that hospital system in both 2019 and 2020.

Hospital system operating profits ranged from approximately $441 million (Banner Health) to $(55) million (Steward Health Care) in HFY 2019, and $636 million (Banner Health) to $7.9 million (Steward Health Care) in HFY 2020. Net operating margin ranged from 19.7% (Lifepoint Health) to (17.9)% (Steward Health Care) in HFY 2019, to 17.4% (Lifepoint Health) and 2.6% (Steward Health Care) in HFY 2020. In both fiscal years, Steward Health Care had the lowest operating profits and net operating margin. The main driver for Steward Health Care in HFY 2019 was attributed to St. Luke's Medical Center, which is now closed. They then opened Florence Hospital in HFY 2020, a general acute care hospital. In general, new hospitals incur net losses in the first few years as they begin operations at the facility.

Uncompensated care ranged widely between health systems, from a high of 2.7% with a low of 0.7% in HFY 2019 and a high of 2.9% with a low of 0.7% in HFY 2020. In HFY 2019, Encompass Health had the lowest uncompensated care cost as a percentage of total expenses, while Community Health Systems had the lowest for HFY 2020.

Banner Health, the state's largest health system, includes 18 hospitals and had annual hospital patient revenues of approximately $5.5 billion in HFY 2019 and $5.9 billion in HFY 2020. The next largest health systems had annual net patient revenues of approximately $2.8 billion (Dignity Health) and $1.9 billion (HonorHealth) in HFY 2020. Uncompensated care was 2.4% for Banner Health, 2.9% for Dignity Health, and 2.0% for HonorHealth in HFY 2020. The Encompass Health system consists of rehabilitation hospitals; consistent with its peer group, the system had a low level of uncompensated care of 0.8% in HFY 2020.

Table 10 -- Uncompensated Care and Profitability by Hospital System

	Abrazo Health Care	Banner Health Systems	Community Health Systems	Dignity Health	Encompass Health (Formerly HealthSouth)	HonorHealth	Lifepoint Health	Steward Health Care
Number of Hospitals which Submitted a UAR (HFY 202	11	18	4	10	6	6	3	4
2019 Uniform Accounting Report								
Occupancy Rate	54.9%	70.2%	52.5%	67.5%	66.8%	62.8%	43.3%	46.8%
Total Revenue, Gains, and Other Support	$ 1,256,379,167	$ 5,545,186,701	$ 537,628,872	$ 2,183,366,813	$ 138,166,493	$ 1,930,814,337	$ 383,819,525	$ 306,708,406
Total Expenses	$ 1,248,879,167	$ 5,103,649,151	$ 469,169,113	$ 2,133,743,274	$ 114,320,631	$ 1,815,497,377	$ 308,249,193	$ 361,641,959
Net Operating Profit(Loss)	$ 7,500,000	$ 441,537,550	$ 68,459,759	$ 49,623,539	$ 23,845,862	$ 115,316,960	$ 75,570,332	$ (54,933,553)
Net Operating Margin	0.6%	8.0%	12.7%	2.3%	17.3%	6.0%	19.7%	-17.9%
Total Income Margin	0.5%	8.0%	12.7%	3.1%	11.9%	6.0%	11.3%	-17.9%
Days in Accounts Receivable	70	52	61	59	48	59	54	46
Cost to Charge Ratio	12.0%	18.5%	9.6%	19.6%	52.5%	16.0%	14.2%	20.9%
Cost of Bad Debts	$ 10,507,067	$ 61,051,474	$ 4,056,245	$ 33,415,953	$ 652,725	$ 10,962,778	$ 6,323,142	$ 3,149,444
Charity Cost	$ 8,400,532	$ 79,156,194	$ 348,299	$ 24,754,592	$ 119,273	$ 27,961,455	$ 91,980	$ 116,701
Uncompensated Care Cost	$ 18,907,600	$ 140,207,668	$ 4,404,544	$ 58,170,545	$ 771,998	$ 38,924,234	$ 6,415,121	$ 3,266,145
Uncompensated Care Cost as a % of Total Expenses	1.5%	2.7%	0.9%	2.7%	0.7%	2.1%	2.1%	0.9%
2020 Uniform Accounting Report								
Occupancy Rate	55.1%	69.1%	44.9%	69.5%	64.0%	57.7%	45.5%	63.5%
Total Revenue, Gains, and Other Support	$ 1,348,928,277	$ 5,950,137,235	$ 491,283,370	$ 2,800,864,653	$ 133,249,567	$ 1,935,784,145	$ 395,395,976	$ 306,780,909
Total Expenses	$ 1,243,081,277	$ 5,313,706,772	$ 430,384,550	$ 2,656,276,983	$ 117,435,292	$ 1,814,762,804	$ 326,776,315	$ 304,334,529
Net Operating Profit(Loss)	$ 105,847,000	$ 636,430,463	$ 60,898,820	$ 144,587,669	$ 15,814,275	$ 121,021,341	$ 68,619,661	$ 7,882,957
Net Operating Margin	7.8%	10.7%	12.4%	5.2%	11.9%	6.3%	17.4%	2.6%
Total Income Margin	5.9%	10.7%	12.4%	11.2%	8.3%	6.3%	14.0%	0.8%
Days in Accounts Receivable	63	54	56	58	48	63	47	72
Cost to Charge Ratio	11.5%	19.8%	9.2%	21.0%	54.9%	16.3%	14.3%	20.5%
Cost of Bad Debts	$ 9,169,523	$ 36,051,930	$ 2,821,194	$ 22,332,359	$ 828,585	$ 11,140,919	$ 3,468,821	$ 2,593,663
Charity Cost	$ 10,811,646	$ 89,827,159	$ 36,681	$ 53,871,523	$ 108,802	$ 24,438,699	$ 106,388	$ 17,134
Uncompensated Care Cost	$ 19,981,169	$ 125,879,089	$ 2,857,876	$ 76,203,881	$ 937,386	$ 35,579,618	$ 3,575,209	$ 2,610,796
Uncompensated Care Cost as a % of Total Expenses	1.6%	2.4%	0.7%	2.9%	0.8%	2.0%	1.1%	0.9%
CHANGE: 2019 to 2020								
Average Occupancy Percentage Points	0.2%	-1.1%	-7.6%	2.0%	-2.8%	-5.1%	2.2%	16.7%
Total Revenue, Gains, and Other Support	$ 92,549,110	$ 404,950,534	$ (46,345,502)	$ 617,497,840	$ (4,916,927)	$ 4,969,808	$ 11,576,451	$ 72,503
Total Expenses	$ (5,797,890)	$ 210,057,621	$ (38,784,563)	$ 522,533,709	$ 3,114,661	$ (734,573)	$ 18,527,122	$ (57,307,430)
Total Net Operating Profit(Loss)	$ 98,347,000	$ 194,892,913	$ (7,560,939)	$ 94,964,130	$ (8,031,587)	$ 5,704,380	$ (6,950,671)	$ 62,816,510
Net Operating Margin	7.2%	2.7%	-0.3%	2.9%	-5.4%	0.3%	-2.3%	20.5%
Total Margin	5.5%	2.7%	-0.3%	8.1%	-3.6%	0.3%	2.7%	18.7%
Average Days in Accounts Receivable	(7)	2	(5)	(1)	-	4	(7)	26
Cost to Charge Ratio	-0.5%	1.3%	-0.3%	1.4%	2.4%	0.3%	0.1%	-0.4%
Cost of Bad Debts	$ (1,337,544)	$ (24,999,545)	$ (1,235,050)	$ (11,083,595)	$ 175,860	$ 178,141	$ (2,854,321)	$ (555,781)
Charity Cost	$ 2,411,114	$ 10,670,965	$ (311,618)	$ 29,116,931	$ (10,472)	$ (3,522,756)	$ 14,408	$ (99,567)
Uncompensated Care Cost	$ 1,073,570	$ (14,328,580)	$ (1,546,668)	$ 18,033,336	$ 165,388	$ (3,344,615)	$ (2,839,913)	$ (655,348)
Uncompensated Care Cost as % of Total Expenses	0.1%	-0.4%	(0.0)	0.1%	0.1%	-0.2%	-1.0%	0.0%

HEALTHCARE 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 healthcare industry. While there are no specific COVID-19 sections in the data hospitals submitted in their UARs, there are still many changes that can be identified within the past year. As has been previously stated in this report, the data used in this report is from HFY 2020. HFYs vary per hospital, resulting in hospitals having anywhere between three to nine months' worth of data impacted by COVID-19. This means the total impact of COVID-19 will be spread across multiple years, which will be reflected in future reports.

Admission rates at hospitals decreased dramatically at the beginning of the Public Health Emergency, 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."[9] It is interesting to note that while hospital admissions may have varied month to month, the average occupancy rate overall for all hospitals in this report only decreased by 0.9% from HFY 2019. Future reports may see a further change.

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: $20.75B in Allocations - Arizona received $214M
- Safety Net Hospitals: $13B in Allocation - Arizona received $258M
- Rural Distributions: $11.09B in Allocation
- Children's Hospitals: $1.06B in Allocation

[9] 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 31, 2021).

Hospitals reported on their annual Medicare Cost Report (MCR) the total COVID-19 Provider Relief Funds. The Medicare Cost Reports did not identify from which federal program the funds were awarded; however, it provides the public insight on the support each hospital received from this program. While not all received this additional funding, those which did received an estimated total of $495 million. Phoenix Children's Hospital was the largest recipient with an estimated $76.7 million in PHE funds. Without this funding, the HFY 2020 for hospitals would be in a vastly different position heading into HFY 2021. For hospital specific details that were reported on the most recent Medicare Cost Report, please refer to Appendix D at the end of the report.

AHCCCS also implemented a variety of methods to assist in offsetting the expected negative effects of the pandemic on hospitals. AHCCCS typically distributes two Prop 202 Trauma and ED payments per year from the fund derived from the Department of Gaming which is meant to assist hospitals with a Level 1 Trauma Center and/or Emergency Departments. This was divided into three payments for SFY2021, to provide a timelier payment stream for hospitals in need. Hospitals in the Graduate Medical Education program, or GME, also received $50 million in accelerated payments.[10] CAH payment amounts, or Critical Access Hospital payments, were increased by $5.3 million.[10]

Hospital Openings and Closures

There have been no recent hospital closures, with the last hospital closures being St. Luke's Medical Center and Hacienda Children's Hospital in late 2019. Comparatively, eleven new hospitals have been added to the report since last year. Six of the eleven are acute care hospitals. Abrazo Healthcare added two acute care hospitals, while Banner Health added one. While the majority of new acute care hospitals were classified as urban, many of them were opened on the outskirts of the larger metro areas to meet the population growth occurring in Arizona. Banner Health and Select Medical Group also opened two new rehabilitation hospitals as a joint venture, although they are retained under the Select Medical Group system. Also of note are the additions of three psychiatric hospitals: Copper Springs East, Phoenix Medical Psychiatric, and Medical Behavioral Hospital of Northern Arizona.

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

[10] 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

hospital closures.[11] It has also been reported over 25% of Arizona rural hospitals are at a current risk of closure.[12] As the focus shifts to development in the more profitable 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 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 all in the past two years. Phoenix ER & Medical Hospital and Tucson ER & Medical Hospital have recently opened as part of the micro-hospital trend. 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. [13] [14] [15] 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

[11] 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

[12] Center for Healthcare Quality and Payment Reform. "RURAL HOSPITALS AT RISK OF CLOSING" July 2021 https://www.chqpr.org/downloads/Rural_Hospitals_at_Risk_of_Closing.pdf

[13] Saulsberry, Kalyn. "To Grow Your Hospital, Think Micro." Advisory Board. May 20, 2016. https://www.advisory.com/research/financial-leadership-council/at-the-margins/2016/05/micro-hospitals

[14] 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

[15] 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/

FrEDs in the U.S. grew from 220 to 566, a 157% increase.[16] [17] In Arizona, at least 20 such facilities have opened since 2010.

Outpatient Migration

The shift from inpatient to outpatient care continues steadily as healthcare advances and payers try to contain costs. In the past decade, surgeries such as total joint replacement, spine fusions, and even some cardiovascular procedures have migrated to the outpatient setting. As this trend continues, we are likely to see only the most complex procedures and those for high-risk patients performed in an inpatient setting.[18] While some of these procedures have moved from inpatient to outpatient hospital settings, others have moved to ambulatory surgical centers, free-standing facilities that operate exclusively for the purpose of furnishing outpatient surgical services, further impacting hospitals' bottom lines. Between 2000 and 2020, the number of ambulatory surgical centers (healthcare facilities focused on providing same-day surgeries) nationwide increased by 91% from 3,028 to 5,773.[19]

Reimbursement

Base rates for most inpatient and outpatient services were reduced by approximately 10%, effective October 1, 2011. Since the rate reductions in FFY 2011-2012, as of HFY 2019 AHCCCS was unable to provide more than minimal base rate increases for outpatient hospital rates of 1%. Additionally, AHCCCS restored a total of approximately 7% through inpatient DRG adjustments.

However, 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.

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

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[16] 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/

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

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

[19] Avanza Healthcare Strategies. "Outpatient Statistical Snapshot." 2018 https://avanzastrategies.com/outpatient-statistical-snapshot/ & https://www.ascassociation.org/advancingsurgicalcare/asc/numberofascsperstate

reduction due to the Sequestration. 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 2019, fifteen 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. This means CMS was able to keep the 340B cuts, and is a ruling against hospital groups who sought to block the reduction in payments. While the decision was overturned in favor of CMS, the United States Supreme Court agreed in July of 2021 to hear the case, and is expected to hear the case and render a decision within the next year.[20]

CONCLUSION

The HFY 2019 and HFY 2020 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 the AHCCCS-related changes which began in 2011. Hospital uncompensated care as a percentage of total expenses remained flat at 2.46% in HFY 2020. Average operating margin increased from 5.81% to 7.42%. Additionally, the percentage of hospitals with a positive operating margin stayed relatively stable from HFY 2019 to HFY 2020, increasing from 69.9% to 74.1%.

It is important to be aware that the most recent data included in this report is from HFY 2020. Since hospitals have different fiscal years, the most recently reported years ended between June 2020 and December 2020.

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

[20] King, Robert. "Supreme Court agrees to hear hospital lawsuit challenging HHS' 340B cuts." 2021. https://www.fiercehealthcare.com/hospitals/supreme-court-agrees-to-hear-hospital-lawsuit-challenging-hhs-340b-cuts (accessed September 6,2021).

Appendix A

Medicaid Volume <25%

Arizona Orthopedic Surgical Hospital
Arizona Spine & Joint Hospital
Avenir Behavioral Hospital
Banner Baywood Medical Center
Banner Boswell Medical Center
Banner Del E. Webb Medical Center
Banner Goldfield Medical Center
Banner Heart Hospital
Banner Ocotillo Medical Center
Banner Payson Medical Center
Banner Rehabilitation Hospital Phoenix
Banner Rehabilitation Hospital West
Benson Hospital Corp
Copper Queen Community Hospital
The Core Institute
Cornerstone Hospital of Southeast Arizona
Dignity Health Arizona General Hospital-Mesa
Dignity Health East Valley Rehabilitation Hospital
Encompass Health East Valley
Encompass Health Northwest Tucson
Encompass Health Scottsdale
Encompass Health Tucson
Encompass Health Valley of the Sun
Havasu Regional Medical Center
HonorHealth Deer Valley Medical Center
HonorHealth Rehabilitation Hospital
HonorHealth Scottsdale Osborn Medical Center
HonorHealth Scottsdale Shea Medical Center
HonorHealth Scottsdale Thompson Peak Medical Center
HonorHealth Sonoran Crossing / Sonoran Health and Emergency Center
La Paz Regional Hospital, Inc.
Mayo Clinic Arizona
Medical Behavioral Hospital
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
Phoenix Medical Psychiatric Hospital

Santa Cruz Valley Regional Hospital
Select Specialty Hospital – Phoenix
Valley View Medical Center
Western Arizona Regional Medical Center
White Mountain Regional Medical Center
Wickenburg Community Hospital
Yavapai Regional Medical Center
Yuma Rehabilitation Hospital

Medicaid Volume = 25-50%

Abrazo Arrowhead Campus
Abrazo Arizona Heart Hospital
Abrazo Central Campus
Abrazo Mesa Hospital
Abrazo Scottsdale Campus
Abrazo Surprise Hospital
Abrazo West Campus
Arizona General Hospital-Laveen
Banner Casa Grande Medical Center
Banner Desert Medical Center
Banner Estrella Medical Center
Banner Gateway Medical Center
Banner Ironwood Medical Center
Banner Thunderbird Medical Center
Banner - University Medical Center Phoenix
Banner - University Medical Center South
Banner - University Medical Center Tucson
Canyon Vista Medical Center
Carondelet Marana Hospital
Chandler Regional Medical Center
Cobre Valley Regional Medical Ctr
Destiny Springs Healthcare
Flagstaff Medical Center
Florence Hospital
The Guidance Center
Holy Cross Hospital
HonorHealth John C. Lincoln Medical Center
Kingman Regional Medical Center
Mt. Graham Medical Center
Mountain Vista Medical Center
OASIS Behavioral Health
Rehabilitation Hospital of Northern Arizona
Select Specialty Hospital – Phoenix Downtown

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

Medicaid Volume >50%

Aurora Behavioral Health System
Banner Behavioral Health Hospital
Copper Springs Hospital
Cornerstone El Dorado
Haven Senior Horizons
Little Colorado Medical Center
Page Hospital
Palo Verde Behavioral Health
Phoenix Children's Hospital
Quail Run Behavioral Health
Sonora Behavioral Health Hospital
St. Luke's Behavioral Hospital
Valley Hospital
ValleyWise Health Medical Center

Appendix B

Hospitals included in each hospital system are as follows:

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

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

Community Health Systems
Northwest Medical Center
Northwest Medical Center - Sahuarita
Oro Valley Hospital
Western Arizona Regional Medical Center

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
Yavaipai 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

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

Appendix D

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

Hospitals	Total
Abrazo Scottsdale Campus	$1,945,231.00
Arizona General Hospital	$6,008,438.00
Arizona Spine & Joint Hospital	$836,548.00
Aurora Behavioral Health System	$525,407.00
Aurora Behavioral Healthcare-Tempe	$709,774.00
Avenir Behavioral Health Center	$548,368.00
Banner Baywood Medical Center	$6,205,466.00
Banner Behavioral Health Hospital	$3,104,395.00
Banner Boswell Medical Center	$12,042,504.00
Banner Casa Grande Medical Center	$9,928,304.00
Banner Del E. Webb Medical Center	$27,030,180.00
Banner Desert Medical Center	$17,456,197.00
Banner Estrella Medical Center	$18,214,707.00
Banner Gateway Medical Center	$12,962,258.00
Banner Goldfield Medical Center	$846,993.00
Banner Ironwood Medical Center	$6,830,257.00
Banner Ocotillo Medical Center	$138,652.00
Banner Payson Medical Center	$3,166,422.00
Banner Thunderbird Medical Center	$36,868,503.00
Banner--University Medical Center Phoenix	$37,959,663.00
Banner--University Medical Center Tucson	$21,609,468.00
Benson Hospital	$3,467,521.00
Chandler Regional Medical Center	$11,634,206.00
Cobre Valley Regional Medical Center	$226,098.00
Copper Queen Community Hospital	$5,285,446.00
Curahealth Phoenix (formerly Kindred Hospital - Tucson)	$128,104.00
Curahealth Phoenix (formerly Kindred Hospital AZ -NW PHX)	$518,247.00
Dignity Health East Valley Rehabilitation Hospital	$1,026,483.00
Havasu Regional Medical Center	$4,850,526.00
Holy Cross Hospital	$89,963.00
HonorHealth Rehabilitation Hospital	$329,327.00
Kingman Regional Medical Center	$15,000,000.00
La Paz Regional Hospital, Inc.	$3,598,065.00
Little Colorado Medical Center	$477,715.00

Mercy Gilbert Medical Center	$5,784,589.00
Mountain Valley Regional Rehabilitation Hospital	$64,000.00
Mt. Graham Regional Medical Center	$4,691,136.00
Northern Cochise Community Hospital	$1,851,214.00
Oasis Behavioral Health Hospital	$631,189.00
Oro Valley Hospital	$2,693,760.00
Page Hospital	$1,860,118.00
Palo Verde Behavioral Health	$473,648.00
Phoenix Children's Hospital	$76,697,052.00
Promise Hospital	$934,506.00
Rehabilitation Hospital of Northern Arizona	$126,000.00
Santa Cruz Valley Regional Hospital	$11,827,788.00
Sonora Behavioral Health Hospital	$624,770.00
St. Joseph's Hospital Medical Center	$52,069,103.00
St. Joseph's Hospital (Tucson)	$7,338,768.00
St. Mary's Hospital & Health Care Center	$3,374,337.00
Summit Healthcare Association	$14,414,459.00
The CORE Institute Specialty Hospital (formerly Surgical Specialty Hospital of Arizona)	$1,013,632.00
The Guidance Center	$2,546,720.00
Valley Hospital	$883,536.00
Valley View Medical Center	$1,563,519.00
Valleywise (formerly Maricopa Medical Center)	$9,816,880.00
White Mountain Communities Hospital	$1,673,744.00
Wickenburg Community Hospital	$9,704,628.00
Yuma Regional Medical Center	$11,467,033.00