

September 25, 2024

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

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

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

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

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

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

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

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

Please feel free to contact 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 black ink, appearing to read 'Carmen Heredia', with a stylized, cursive script.

Carmen Heredia
AHCCCS Director

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



Report on Uncompensated Hospital Costs and Hospital Profitability

October 2024

Director, Carmen Heredia



2024 Report on Uncompensated Hospital Costs and Hospital Affordability

EXECUTIVE SUMMARY

In Hospital Fiscal Year (HFY) 2020, hospitals' net operating profit had exceeded expectations with the largest year to year increase since 2013 with a net operating profit of \$1.5 billion. The increase in net operating was primarily due to the funding from the federal COVID-19 provider relief fund and the newly created directed payment program. HFY 2021 continued this upward trend with a net operating profit of \$1.7 billion. In HFY 2022, net operating profit decreased to approximately \$1.1 billion. Now, in HFY 2023, net operating profit was \$1.6 billion. It is important to note that there are several factors that influence hospital profitability and uncompensated care, including long-term and short-term business decisions made by hospitals, occupancy rates, the economy, federal and state policies, and changes in the health care industry as a whole.

Operating profitability continues to vary considerably by hospital type. In HFY 2023 all hospital types except psychiatric experienced increases from HFY 2022 in both net operating margins and total margins. The negative margins for long term care hospitals in HFY 2022 decreased further in HFY 2023. Short term specialty hospitals had the lowest increases, while rehabilitation hospitals had the highest increases, year over year.

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 addition, the Arizona Legislature created a new hospital assessment in March 2020, to be deposited into the newly created Health Care Investment Fund (HCIF), which draws down federal matching funds annually to provide directed payments from AHCCCS to hospitals beginning in Federal Fiscal Year (FFY) 2021 (October 1, 2020 - September 30, 2021). The FFY 2023 net payment totaled approximately \$1.4 billion.

BACKGROUND

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

AHCCCS uncompensated care; hospital assessment; reports

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

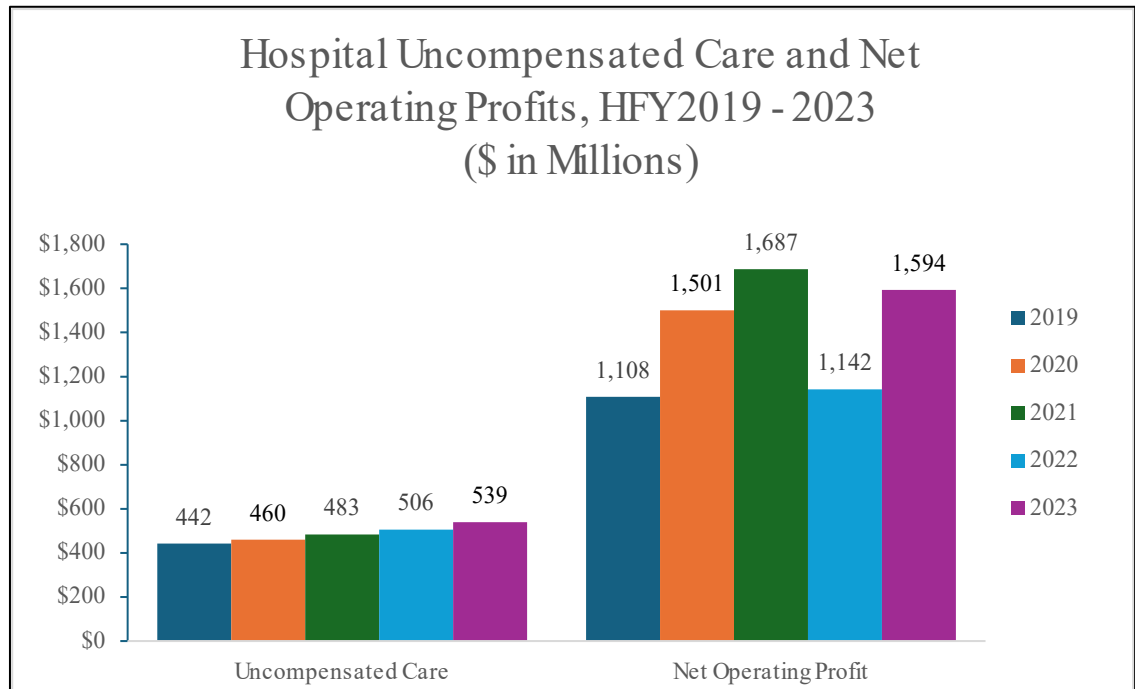
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Hospital-reported data shows that total uncompensated care grew by \$33.7 million from Hospital Fiscal Year (HFY) 2022 to HFY 2023. HFY 2023 total uncompensated care was \$539.5 million; while the average uncompensated care costs for HFY 2023 were \$4.7 million. Uncompensated care as a percentage of total expenses decreased from 2.5% during HFY 2022 to 2.2% in HFY 2023.

In HFY 2023 total net hospital profitability exceeded \$1 billion for the sixth straight year; In HFY 2023 it was \$1.6 billion compared to \$1.1 billion in HFY 2022.

	Hospital Profitability and Uncompensated Care					
	HFY 2019-2023					
	(\$ in Millions)					
	2019	2020	2021	2022	2023	2022-2023 Change
Total Uncompensated Care	\$441.8	\$460.0	\$482.8	\$505.8	\$539.5	\$33.7
Average Uncompensated Care Costs	\$4.2	\$4.2	\$4.4	\$4.8	\$4.7	\$(0.1)
Uncompensated Care Costs as a % of Total Expenses	2.5%	2.5%	2.2%	2.5%	2.2%	(11.6)%
Total Net Operating Profitability	\$1,108.0	\$1,501.2	\$1,687.1	\$1,142.1	\$1,594.1	\$452.0
Average Operating Profitability	\$10.8	\$13.6	\$15.3	\$10.9	\$13.9	\$3.0
Average Operating Margin	5.8%	7.4%	7.3%	5.3%	6.1%	15.7%
Hospitals with a Positive Net Operating Margin	69.9%	73.6%	77.3%	68.6%	73.0%	6.5%
Average Total Income Margin	6.9%	9.4%	10.1%	6.0%	7.8%	30.5%
Average Occupancy Rate	63.2%	61.9%	67.1%	66.3%	64.9%	(2.1)%

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

- The implementation of Differential Adjusted Payments (DAPs), effective October 1, 2016, increasing rates for acute care hospital providers who met established quality performance criteria. The DAP criteria were expanded to include all hospitals on October 1, 2017.
- Effective October 1, 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%.

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- The Graduate Medical Education (GME) Program has seen payment increase to hospitals to support their residency programs in recent years. In SFY 2023, AHCCCS paid hospitals a record \$425.2M to support these programs compared to \$331.3M in SFY 2020. The majority of the GME program is funded by hospitals identifying a local funding partner to provide the match. More recently, the State of Arizona has appropriated \$9M of general fund in SFY 2023 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 directed program payment called Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII). In 2020, the Arizona Legislature established the HCIF through the passage of HB 2668. The annual HCIF assessment revenue, when matched with federal funds, resulted in hospitals receiving quarterly HEALTHII directed payments which, in FFY 2021, approximated \$1.275 billion and, after accounting for the HCIF collection amount, reflects a net increase of approximately \$956.6 million. For FFY 2022 the net payment was \$924.1 million, and for FFY 2023 the net payment was \$1.4 billion.

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 tribally owned or operated hospitals, Arizona hospitals are required to submit annual audited financial statements, the Uniform Accounting Report (UAR), and hospital charge master rates and changes to the Arizona Department of Health Services (ADHS). AHCCCS used hospital-reported information in the UAR for the analysis conducted for this report. Seven hospitals were excluded from this report either because they were new or did not provide a UAR in time for completion of this report (Clearsky Rehabilitation Hospital of Avondale, Exceptional Hospital Bullhead City, Reunion Rehabilitation Hospital of Peoria, Changepoint Psychiatric, Cobalt Rehabilitation Hospital, Copper Springs East, and KPC Promise Hospital.)

The most recent complete year for which UAR data was available was HFY 2023. Reporting periods in each year vary by hospital based on each hospital's fiscal year date. In cases where the hospital was open both prior to and after a fiscal year which contained greater than or less than 12 months of data, AHCCCS annualized the data for a more accurate year-over-year comparison and to approximate a 12- month period for each hospital. For new hospitals and hospitals which closed, AHCCCS did not annualize the data.

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

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as Medicare and Medicaid shortfall amounts). AHCCCS has defined uncompensated care costs to include bad debt and charity care data.

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

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

The cost-to-charge ratio averaged 20.3% in HFY 2022 and 20.8% in HFY 2023. That is, for every one dollar of hospital charges, hospital costs averaged approximately 20.8 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.

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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 \$506 million in HFY 2022 and increasing to \$539 million in HFY 2023. Uncompensated care costs for the two most recent reporting years are noted in Table 1.

Table 1—Uncompensated Care Costs, All Hospitals

	<u>2022</u>	<u>2023</u>	<u>Percentage Change</u>
Total Uncompensated Care Costs	\$505.8 Million	\$539.5 Million	6.7%
Statewide Average Uncompensated Care Costs Per Hospital	\$4.8 Million	\$4.7 Million	(2.6)%
Lowest Uncompensated Care Costs *	\$(142.6) Thousand **	\$10.9 Thousand	107.6%
Highest Uncompensated Care Costs	\$106.4 Million	\$75.3 Million	70.8%
*Excludes hospitals which do not provide uncompensated care			
** Values are negative due to collection of prior year debts.			

2. Percentage of Uncompensated Care

Uncompensated care costs were also examined as a percentage of total expenses. The statewide average percentage of uncompensated care costs decreased by 10.2% during this period as shown in Table 2.

Table 2—Percent of Uncompensated Care, All Hospitals

	<u>2022</u>	<u>2023</u>	<u>Percentage Change</u>
Average % of Uncompensated Care	2.46%	2.21%	(10.2)%
Lowest % of Uncompensated Care Costs*	(1.16)**	0.05%	
Highest % of Uncompensated Care	12.74%	13.85%	
*Excludes hospitals which do not provide uncompensated care			
** Values are negative due to collection of prior year debts.			

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3. Operating Profitability

Operating profitability continues to range greatly, from significant losses to significant gains. The statewide average operating profits for the Arizona hospitals included in this analysis increased by \$3.0 million. The percentage of hospitals with a profit increased from 68.6% in HFY 2022 to 73.7% in HFY 2023.

Table 3—Operating Profitability, All Hospitals

	2022	2023	Percentage Change
Total Profitability	\$1,142 Million	\$1,596 Million	39.6%
Statewide Average Profitability	\$10.9 Million	\$13.9 Million	27.4%
Lowest Profitability/(Highest Loss)	\$(215.8) Million	\$(206.6) Million	
Highest Profitability	\$315.4 Million	\$257.5 Million	
Percent of Hospitals with a Profit	68.60%	73.7%	

4. Net Operating Margin

Net operating margin, defined as profit/loss as a percentage of total revenue, averaged 5.3% in HFY 2022 and 6.1% in HFY 2023, as shown in Table 4. For the purpose of this analysis, average net operating margin equals the statewide total profit(loss) divided by statewide total revenue. Overall, 68.6% of hospitals in HFY 2022 and 73.7% in HFY 2023 had a positive net operating margin.

Table 4—Net Operating Margin, All Hospitals

	2022	2023	Percentage Change
Average Net Operating Margin	5.3%	6.1%	16.2%
Lowest Net Operating Margin*	(103.1)%	(61.6)%	
Highest Net Operating Margin	34.2%	32.4%	
Hospitals with Positive Net Margin	68.6%	73.0%	

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

5. Total Margin

As discussed earlier, total margin provides another way to evaluate the financial status of hospitals, as it includes non-operating revenues and expenses in addition to operating revenues and expenses. Average total margin is defined as statewide operating and non-operating profit (loss) as a percentage of statewide total operating and non-operating revenue. Average total increased from 6.0% across all hospitals in HFY 2022 to 7.8% in HFY 2023, as shown in Table 5.

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Table 5—Total Margin, All Hospitals

	<u>2022</u>	<u>2023</u>	Percentage Change
Average Total Margin	6.0%	7.8%	30.2%
Lowest Total Margin *	(103.1)%	(61.6)%	
Highest Total Margin	31.1%	28.1%	
Hospitals with Positive Total Margin	61.9%	73.0%	

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

6. Occupancy Rates

In addition to the items specifically requested in legislation, hospital occupancy rates may also be of interest in providing context to these figures. Table 6 shows a decrease from HFY 2022 to HFY 2023, with average occupancy rates of 66.3% and 64.9%, respectively.

Table 6—Occupancy Rates, All Hospitals

	<u>2022</u>	<u>2023</u>	Percentage Change
Average Occupancy Rate	66.3%	64.9%	(2.0)%
Lowest Occupancy Rate	9.0%	3.0%	
Highest Occupancy Rate	100.0%	98.9%	

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 68 in HFY 2022, improving to 66 in HFY 2023. Fitch Ratings reports a national average accounts receivable of 47.3 days for not-for-profit health systems in FY 2022.¹

¹ <https://your.fitch.group/rs/732-CKH-767/images/Fitch-2023-Median-Ratios-Not-for-Profit%20Hospitals-and-Healthcare-Systems-Fitch-10239690.pdf>

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Table 7—Days in Accounts Receivable, All Hospitals

	<u>2022</u>	<u>2023</u>	<u>Percentage</u> <u>Change</u>
Average Days in Accounts Receivable	68	66	(2.9)%
Fewest Days	0	26	
Most Days *	300	318	

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

DATA BY HOSPITAL TYPES

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

Hospital Peer Types

Table 8 segregates Arizona hospitals into six categories: critical access, long-term acute care, rehabilitation, psychiatric, short-term specialty, and general acute care. Hospitals were assigned these categories based on their classification in the ADHS Provider and Facility Database as of August 1, 2024. For the purposes of this report, AHCCCS has categorized hospitals which do not fall into any of the other 5 categories as general acute care hospitals. General acute care hospitals tend to be large, as indicated by the fact that approximately half of the hospitals are classified as general acute care hospitals, but they include over 90% of total hospital revenue.

Grouped by peer type, the average for hospital uncompensated care as a percentage of total expenses ranged from 0.1% to 2.9% in HFY 2023. Long-term hospitals and short-term specialty hospitals continued to experience rates of less than 1.0%. Rehabilitation hospitals and general acute care hospitals saw decreases, while psychiatric hospitals saw an increase in this metric.

There continues to be a variance in net operating profit (as well as total profit) between the different peer groups. In HFY 2022, the range in net operating margin was from (6.8%) (long-term) to 11.8% (short-term specialty). In HFY 2023, the range in net operating margin was from (10.9)% to 14.9%. Rehabilitation hospitals are the peer group with the highest net operating margin in HFY 2023; long-term acute care hospitals remain the group with the lowest net operating margin.

The number of long-term acute care hospitals has declined from ten at the beginning of 2015 to six at the end of 2017 and has maintained this level through 2022.² While Arizona has lost long-

² PAM Health Specialty Hospital was closed in December 2022 and KPC Promise Hospital is not included in the 2022 or 2023 data due to untimely submission. The calculations of this report have five hospitals listed as long-term acute care.

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term acute care hospitals, the number of psychiatric hospitals and rehabilitation hospitals has grown. Five new psychiatric hospitals have opened since HFY 2019. Copper Springs East, Phoenix Medical Psychiatric Hospital, Via Linda Behavioral Health Hospital and Banner Behavioral Health Hospital are located in Maricopa County. 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.

Seven new rehabilitation hospitals have opened since HFY 2019. Banner Rehabilitation Hospital East in Mesa, Reunion Rehabilitation Hospital in Phoenix and Dignity Health East Valley Rehabilitation Hospital in Gilbert opened in 2022. Clearsky Rehabilitation Hospital in Avondale and Reunion Rehabilitation Hospital in Peoria opened in 2023.³

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. Net operating margin for CAHs increased from 4.8% in HFY 2022 to 5.2% in HFY 2023; total income margin increased from 5.1% in HFY 2022 to 7.6% in HFY 2023.

³ Cobalt Rehabilitation Hospital is not included in the 2022 or 2023 data due to untimely submission. The calculations of this report have fifteen hospitals listed as Rehabilitation.

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

	Critical Access	Long Term	Rehabilitation	Psychiatric	Short Term Specialty	General Acute Care
Number of Hospitals which Submitted a UAR (HFY 2022)	12	4	13	18	6	56
2022 Uniform Accounting Report						
Occupancy Rate	30.2%	70.7%	60.1%	79.4%	42.0%	66.5%
Total Gains, Revenues, and Other Support	\$ 531,165,142	\$ 77,647,393	\$ 276,143,977	\$ 432,702,867	\$ 494,055,087	\$ 19,856,364,798
Total Expenses	\$ 505,843,847	\$ 82,960,901	\$ 246,797,191	\$ 411,777,402	\$ 435,909,139	\$ 18,842,680,238
Net Operating Profit(Loss)	\$ 25,321,296	\$ (5,313,508)	\$ 29,346,786	\$ 20,925,465	\$ 58,145,948	\$ 1,013,684,560
Net Operating Margin	4.8%	-6.8%	10.6%	4.8%	11.8%	5.1%
Total Income Margin	5.1%	-5.7%	9.2%	4.6%	11.3%	6.0%
Days in Accounts Receivable	50	77	63	92	52	70
Cost to Charge Ratio	33.1%	17.3%	42.4%	40.4%	14.5%	20.0%
Cost of Bad Debts	\$ 11,063,566	\$ 54,583	\$ 2,210,266	\$ 3,511,253	\$ 943,201	\$ 170,813,586
Cost of Charity Care	\$ 3,020,919	\$ -	\$ 583,710	\$ 1,791,223	\$ 1,143,407	\$ 310,692,519
Uncompensated Care Cost	\$ 14,084,485	\$ 54,583	\$ 2,793,976	\$ 5,302,476	\$ 2,086,608	\$ 481,506,105
Uncompensated Care Cost as a % of Total Expenses	2.8%	0.1%	1.1%	1.3%	0.5%	2.6%
Number of Hospitals which Submitted a UAR (HFY 2023)	12	5	15	18	9	56
2023 Uniform Accounting Report						
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	2.9%	0.1%	0.9%	1.9%	0.7%	2.3%
CHANGE: 2022 to 2023						
Average Occupancy Percentage	-4.8%	-6.6%	16.3%	-3.8%	-14.8%	-2.9%
Total Gains, Revenues, and Other Support	\$ 38,906,632	\$ (689,753)	\$ 105,957,562	\$ 73,959,423	\$ 116,074,599	\$ 4,002,982,566
Total Expenses	\$ 34,770,939	\$ 2,401,455	\$ 78,446,238	\$ 91,537,156	\$ 93,933,121	\$ 3,584,144,588
Net Operating Profit(Loss)	\$ 4,135,692	\$ (3,091,208)	\$ 27,511,324	\$ (17,577,733)	\$ 22,141,479	\$ 418,837,978
Net Operating Margin	8.4%	-59.6%	40.0%	-86.3%	11.8%	17.6%
Total Margin	48.7%	-60.7%	40.7%	-75.4%	10.5%	30.5%
Average Days in Accounts Receivable	-4	1	-13	7	7	-3
Cost to Charge Ratio	-1.5%	-12.8%	-1.9%	2.3%	-11.9%	3.0%
Cost of Bad Debts	\$ 1,104,947	\$ 25,560	\$ 147,061	\$ 3,438,602	\$ 946,577	\$ 33,133,324
Cost of Charity Care	\$ 276,333	\$ -	\$ (66,511)	\$ 900,365	\$ 630,985	\$ (6,874,319)
Uncompensated Care Cost	\$ 1,381,280	\$ 25,560	\$ 80,550	\$ 4,338,967	\$ 1,577,563	\$ 26,259,006
Uncompensated Care Cost as % of Total Expenses	2.7%	42.7%	-21.9%	48.8%	44.5%	-11.4%

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 2023, approximately 74% of hospitals were located in urban areas, and 85% of total gains, revenues, and other support went to urban hospitals. From HFY 2022 to HFY 2023, urban hospitals’ uncompensated care as a percent of total expenses decreased from 2.4% to 2.1%. Rural hospitals uncompensated care as a percent of total expenses remained at 2.7% in HFY 2023.

As a whole, in HFY 2023 rural hospitals averaged lower net operating margins but higher total income margins than urban hospitals. Rural hospitals had a net operating margin of 5.2% compared to 6.3% for urban hospitals. Total income margins were 8.9% for rural hospitals and 7.7% 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.⁴ Being a non-profit hospital does not mean that a hospital cannot make a profit. As measured by total income margin, the most profitable hospitals since HFY 2021 have been the non-profit hospitals, as a group.

As a group, non-profit hospitals had a net operating profit of approximately \$1.2 billion in HFY 2023; this was an increase of 39.6% in net operating profit from \$887 million in HFY 2022. In comparison, for-profit hospitals' net operating profit was approximately \$255 million and \$355 million in HFYs 2022 and 2023, respectively, an increase of 39.4%.

These dollar figures, however, must be viewed in the context of hospital size and business model. While non-profit hospitals constitute approximately 43% of all hospitals in Arizona, they received over 83% of total gains, revenues, and other support (in part because they are typically much larger than the types of hospitals that are more often for-profit). For-profit hospitals are more likely to be rehabilitation, psychiatric, short-term specialty, or long-term acute care hospitals, whereas the majority of non-profit hospitals are general acute care hospitals, which tend to be larger than other hospital types.

⁴ Community benefits include patient financial assistance, unreimbursed Medicaid costs and other means-tested public programs, community health improvement services, health professions education, research, subsidized health services, and cash and in-kind support to community groups and organizations.

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Medicaid Volume

Table 9 also compares hospital uncompensated care and profitability by Medicaid volume: hospitals with Medicaid volume less than 25%, from 25-50%, and greater than 50%.⁵

Uncompensated care as a percentage of total expenses in HFY 2023 was lowest at hospitals with Medicaid volume less than 25%, decreasing from 1.8% in HFY 2022 to 1.4% in HFY 2023. In the middle range, 25% to 50%, this metric increased a bit from 2.2% in FY 2022 to 2.5% in HFY 2023. Hospitals with Medicaid volumes > 50% showed a decrease from 6.0% in HFY 2022 to 3.9% in HFY 2023. As explained earlier, uncompensated care in this report is defined as the sum of charity care and the provision for bad debt, so the uncompensated care would not include any shortfall associated with Medicaid payments and the cost of services.

With respect to the relationship between Medicaid volume and net operating margin, no clear correlation is evident. In HFY 2022, hospitals in the lowest Medicaid volume group had the highest net operating margin, 6.9%, while in HFY 2023 it was hospitals in the middle 25% to 50% that had the highest net operating margin, at 8.0%. Hospitals with Medicaid volumes greater than 50% had the lowest net operating margin in both years, 2.3% in HFY 2022 and (3.4)% in HFY 2023.

⁵ To calculate Medicaid volume, AHCCCS divided inpatient days recorded in the AHCCCS payment system by total inpatient days as recorded on the hospital's most recent Medicare Cost Report.

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

	Urban	Rural	For-Profit	Non-Profit	Medicaid Volume > 50%	Medicaid Volume 25%-50%	Medicaid Volume <25%
Number of Hospitals which Submitted a UAR (HFY 2022)	78	31	60	49	15	44	49
2022 Uniform Accounting Report							
Occupancy Rate	69.2%	50.3%	58.6%	69.8%	69.6%	68.0%	62.9%
Total Gains, Revenues, and Other Support	\$ 17,932,224,102	\$ 3,735,855,162	\$ 3,625,405,767	\$ 18,042,673,497	\$ 2,076,188,276	\$ 11,178,839,130	\$ 8,405,211,873
Total Expenses	\$ 17,005,018,857	\$ 3,520,949,860	\$ 3,370,481,170	\$ 17,155,487,548	\$ 2,029,266,638	\$ 10,664,224,068	\$ 7,827,065,493
Net Operating Profit(Loss)	\$ 927,205,245	\$ 214,905,302	\$ 254,924,597	\$ 887,185,949	\$ 46,921,639	\$ 514,615,062	\$ 578,146,379
Net Operating Margin	5.2%	5.8%	7.0%	4.9%	2.3%	4.6%	6.9%
Total Income Margin	6.7%	2.9%	5.9%	6.1%	15.5%	4.6%	5.3%
Days in Accounts Receivable	73	54	70	69	90	56	82
Cost to Charge Ratio	19.9%	22.6%	12.9%	22.9%	28.0%	20.3%	19.0%
Cost of Bad Debts	\$ 126,685,784	\$ 61,910,672	\$ 29,279,911	\$ 159,316,545	\$ 20,263,889	\$ 94,127,564	\$ 74,205,002
Cost of Charity Care	\$ 283,819,280	\$ 33,412,498	\$ 12,512,846	\$ 304,718,932	\$ 102,317,587	\$ 144,429,610	\$ 70,484,581
Uncompensated Care Cost	\$ 410,505,064	\$ 95,323,170	\$ 41,792,757	\$ 464,035,476	\$ 122,581,476	\$ 238,557,174	\$ 144,689,584
Uncompensated Care Cost as a % of Total Expenses	2.4%	2.7%	1.2%	2.7%	6.0%	2.2%	1.8%
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	\$ 20,630,954,757	\$ 3,780,247,456	\$ 3,999,858,742	\$ 20,411,343,471	\$ 2,597,789,524	\$ 12,776,823,952	\$ 9,036,588,737
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	\$ 34,098,956	\$ 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%
CHANGE: 2022 to 2023							
Average Occupancy Percentage	-1.6%	-6.9%	-0.9%	-2.0%	4.6%	-4.6%	-1.6%
Total Gains, Revenues, and Other Support	\$ 4,086,838,257	\$ 250,352,771	\$ 729,871,931	\$ 3,607,319,098	\$ 435,548,329	\$ 2,711,493,945	\$ 1,197,988,739
Total Expenses	\$ 3,625,935,900	\$ 259,297,595	\$ 629,377,572	\$ 3,255,855,923	\$ 568,522,887	\$ 2,112,599,884	\$ 1,209,523,244
Net Operating Profit(Loss)	\$ 460,902,357	\$ (8,944,824)	\$ 100,494,358	\$ 351,463,174	\$ (132,974,557)	\$ 598,894,061	\$ (11,534,505)
Net Operating Margin	21.9%	-10.2%	16.1%	16.4%	-251.6%	74.1%	-14.2%
Total Margin	14.2%	201.5%	16.5%	31.4%	-49.7%	97.4%	14.5%
Average Days in Accounts Receivable	\$ (7)	13	2	(4)	(15)	4	(9)
Cost to Charge Ratio	3.6%	-3.5%	-2.5%	4.1%	15.2%	0.2%	2.2%
Cost of Bad Debts	\$ 32,648,482	\$ 6,147,590	\$ 4,838,626	\$ 33,957,446	\$ 9,902,794	\$ 42,611,151	\$ (13,717,873)
Cost of Charity Care	\$ (5,819,604)	\$ 686,458	\$ (266,018)	\$ (4,867,129)	\$ (30,276,248)	\$ 32,259,087	\$ (7,115,985)
Uncompensated Care Cost	\$ 26,828,877	\$ 6,834,048	\$ 4,572,608	\$ 29,090,317	\$ (20,373,454)	\$ 74,870,238	\$ (20,833,859)
Uncompensated Care Cost as % of Total Expenses	-12.2%	-0.2%	-6.5%	-10.7%	-34.9%	9.7%	-25.9%
Note: for HFY 2022, the number of hospitals in the Medicaid Volume section excludes Avenir Behavioral Center, which did not provide an HFY 2022 Medicare Cost Report.							

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HOSPITAL SYSTEMS

Finally, AHCCCS has presented hospital profitability and uncompensated care by hospital systems. Table 10 lists all nine hospital systems that include at least three hospitals. A full listing of the hospitals in each system can be found in Appendix B. The total revenue, gains, and other support and expenses have been included, as well as other variables provided in previous tables for the hospital systems in Table 10. Hospitals are included as part of a hospital system if they were in that system as of January 30, 2024, regardless of whether they were in that hospital system in both 2022 and 2023.

In HFY 2023, hospital system operating profits ranged from \$(32.9) million for the Steward Health Care hospitals to \$607.5 million for the Banner Health Systems hospitals. Every system showed a substantial increase in operating profits and in net operating Margin in HFY 2023 compared to HFY 2022. (Steward Health Care was not compared year over year as they had not provided the required UARs last year.)

Uncompensated care as a percentage of total expenses ranged fairly widely between health systems, from a high of 3.3% to a low of 0.4% in HFY 2022 and from a high of 2.6% to a low of 0.5% in HFY 2023. As a percentage of total expenses, Community Health Systems had the lowest uncompensated care cost at 0.4% in HFY 2022. Both Community Health Systems and Select Medical had the lowest uncompensated care cost at 0.5% in HFY 2023.

Banner Health, the state's largest health system, includes 18 hospitals and had annual hospital net patient revenues of approximately \$6.4 billion in HFY 2022 compared to \$7.3 billion in HFY 2023. The next largest health systems, Dignity Health and HonorHealth, had annual net patient revenues of approximately \$3.1 billion and \$2.5 billion, respectively, in HFY 2023. Uncompensated care as a percentage of expenses was 2.3% for Banner Health, 2.7% for Dignity Health, and 2.0% for HonorHealth in HFY 2023. The Encompass Health system consists of rehabilitation hospitals; consistent with its peer group, the system had a low level of uncompensated care of 1.5% in HFY 2023, as did the Select Medical system at 0.5%.

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Table 10 -- Uncompensated Care and Profitability by Hospital System

	Abrazo Health Care	Banner Health Systems	Community Health Systems	Dignity Health	Encompass Health (Formerly HealthSouth)	HonorHealth	Lifepoint Health	Select Medical	Steward Health Care
Number of Hospitals which Submitted a UAR (HFY2022)	11	18	5	10	6	6	3	7	-
2022 Uniform Accounting Report									
Occupancy Rate	49.5%	71.5%	50.4%	80.4%	47.3%	66.3%	38.2%	69.1%	
Total Revenue, Gains, and Other Support	\$ 1,405,608,300	\$ 6,679,371,069	\$ 625,903,506	\$ 3,339,961,027	\$ 104,293,178	\$ 2,130,331,093	\$ 451,620,811	\$ 160,334,843	
Total Expenses	\$ 1,295,708,300	\$ 6,401,063,311	\$ 618,413,850	\$ 3,266,457,784	\$ 94,213,600	\$ 2,066,011,435	\$ 389,947,250	\$ 161,042,548	
Net Operating Profit(Loss)	\$ 109,900,000	\$ 278,307,758	\$ 7,489,656	\$ 73,503,243	\$ 10,079,578	\$ 64,319,658	\$ 61,673,561	\$ 637,423	
Net Operating Margin	7.8%	4.2%	1.2%	2.2%	9.7%	3.0%	13.7%	0.4%	
Total Income Margin	6.0%	4.2%	-0.9%	2.9%	5.6%	3.0%	11.2%	0.2%	
Days in Accounts Receivable	70	46	71	66	76	69	49	65	
Cost to Charge Ratio	9.7%	23.4%	10.3%	21.9%	57.8%	15.8%	15.3%	23.4%	
Cost of Bad Debts	\$ 8,308,580	\$ 24,538,048	\$ 2,652,405	\$ 53,158,833	\$ 1,463,725	\$ 10,788,088	\$ 4,823,146	\$ 662,571	
Charity Cost	\$ 7,064,764	\$ 95,965,379	\$ 68,120	\$ 49,819,418	\$ 92,820	\$ 30,560,679	\$ 18,795	\$ 426,530	
Uncompensated Care Cost	\$ 15,373,344	\$ 120,503,427	\$ 2,720,526	\$ 102,978,251	\$ 1,556,545	\$ 41,348,767	\$ 4,841,941	\$ 1,089,101	
Uncompensated Care Cost as a % of Total Expenses	1.2%	1.9%	0.4%	3.3%	1.7%	2.0%	1.2%	0.7%	
Number of Hospitals which Submitted a UAR (HFY2023)	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	\$ 192,320,877	\$ 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%
CHANGE: 2022 to 2023									
Average Occupancy Percentage	-3.4%	-0.9%	2.7%	-3.7%	33.5%	-5.0%	-3.9%	11.4%	
Total Revenue, Gains, and Other Support	\$ 87,351,501	\$ 848,604,245	\$ 108,970,922	\$ 198,973,754	\$ 45,711,095	\$ 567,651,377	\$ 22,190,260	\$ 31,986,034	
Total Expenses	\$ 34,351,501	\$ 519,432,683	\$ 61,478,117	\$ 46,422,516	\$ 34,686,177	\$ 477,197,733	\$ 13,997,493	\$ 13,343,833	
Total Net Operating Profit(Loss)	\$ 53,000,000	\$ 329,171,561	\$ 47,492,805	\$ 152,551,238	\$ 11,024,918	\$ 90,453,643	\$ 8,192,767	\$ 17,297,073	
Net Operating Margin	39.6%	93.7%	525.3%	190.3%	45.6%	90.0%	8.0%	2245.6%	
Total Income Margin	40.5%	93.6%	-956.2%	159.5%	51.7%	89.9%	10.5%	4881.4%	
Average Days in Accounts Receivable	(5)	3	7	2	(23)	(11)	2	(3)	
Cost to Charge Ratio	-8.2%	1.3%	-5.9%	-6.8%	0.3%	0.0%	-4.2%	-14.4%	
Cost of Bad Debts	\$ 1,296,274	\$ 12,508,904	\$ 750,297	\$ (7,652,096)	\$ 402,185	\$ 1,249,030	\$ 396,794	\$ (182,816)	
Cost of Charity Care	\$ 2,025,377	\$ 24,582,724	\$ 23,734	\$ (7,634,442)	\$ 30,005	\$ 7,858,310	\$ 208,384	\$ (32,155)	
Cost of Uncompensated Care	\$ 3,321,651	\$ 37,091,628	\$ 774,031	\$ (15,286,538)	\$ 432,190	\$ 9,107,339	\$ 605,178	\$ (214,971)	
Uncompensated Care Costs as a Percent of Expenses	18.5%	21.0%	16.8%	-18.7%	-7.0%	0.1%	8.5%	-29.6%	

HEALTH CARE INDUSTRY TRENDS

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

COVID-19 Impacts

The Public Health Emergency (PHE) that began in early 2020 from the outbreak of COVID-19, and ended in May 2023, has had an impact on industries across the board, particularly on the health care industry. While there are no specific COVID-19 sections in the data hospitals submitted in their UARs, there are still many changes that can be identified within the past year. The latest data used in this report is from HFY 2023.

Admission rates at hospitals decreased dramatically at the beginning of the Public Health Emergency (PHE), as elective procedures were canceled or postponed due to the spread of the virus. Admissions rates continued to fluctuate throughout 2020, as people may have been “delaying or forgoing care due to the pandemic, in some cases likely due to hospital capacity constraints”.⁶ While average occupancy rate was 61.9% in HFY 2020, it rebounded in HFY 2021 to 67.1%, a 5.2% year-to-year increase. In HFY 2022, the average occupancy rate was 66.3%. In HFY 2023 the average occupancy rate was 65.0%

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

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

Hospitals reported in their annual Medicare Cost Report (MCR) the total COVID-19 Provider Relief Funds. The Medicare Cost Reports did not identify from which federal program the funds were awarded; however, they provide the public insight on the support each hospital

⁶ Tyler Heist , Karyn Schwartz , and Sam Butler, “Trends in Overall and Non-Covid-19 Hospital Admissions.” February 18,2021, <https://www.kff.org/health-costs/issue-brief/trends-in-overall-and-non-covid-19-hospital-admissions/>(accessed August 18, 2022)

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received from this program. While not all received this additional funding, those which did received an estimated total of \$495 million in HFY 2020, \$377 million in HFY2021 and \$106 million in HFY 2022. This funding greatly dropped off in HFY 2023, to \$13 million. In HFY 2022, the largest recipient was Valleywise Health Medical Center, with \$44 million. In HFY 2023, the largest recipient was Abrazo West Campus, with \$3.4 million. For hospital specific details that were reported on the most recent Medicare Cost Report, please refer to Appendix D at the end of the report.

AHCCCS has been able to leverage the increased federal medical assistance percentage (FMAP) due to the PHE to increase specific supplemental payments. CAH payment amounts, or Critical Access Hospital payments, were increased by \$5.3 million in HFY 2020, and again by approximately \$2.2 million in HFY 2021.⁷ In HFY 2022 and HFY 2023, these payments remained at the HFY 2021 levels. In addition, a number of other supplemental payments to hospitals like the graduate medical education (GME) and disproportionate share hospital (DSH) program were able to lower the non-federal share for funding partners due to the PHE FMAP enhancements. Since the PHE has ended in May 2023, the FMAP has gradually returned to pre-Covid PHE levels.

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 but submitted an HFY 2022 UAR so it has been included in this report.

Comparatively, six new hospitals have been added to the report since 2022: 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. New hospitals not included in this report because the data is not available: Clearsky Rehabilitation Hospital in June 2023, Exceptional Health Care Bullhead City in October 2023, and Reunion Rehabilitation Hospital of Peoria in March 2023.

Finally, it should be noted that a number of changes in the health care industry may be particularly challenging financially for rural hospitals. Out of the twelve new hospital additions prior to 2022, only two were rural hospitals, Florence Hospital and Medical Behavioral Hospital of Northern Arizona, and the latter closed in 2022. Rural hospitals have had continuing financial struggles, and these were exacerbated by the COVID-19 pandemic,

⁷ AHCCCS “AHCCCS Stabilizes Health Care Providers with Financial Relief During COVID-19 Pandemic.” November 2,2020 <https://www.azahcccs.gov/shared/News/GeneralNews/AHCCCSStabilizesProvidersFinRelief.html>

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with 2020 having a record high for rural hospital closures nationwide.⁸ Most recently a report from Center for Healthcare Quality and Payment Reform finds two Arizona hospitals at risk for closure.⁹ As the focus shifts to development in the urban areas, Arizona rural hospitals could face additional challenges and exponentially slower growth. Closures of rural hospitals then may present challenges to nearby patients, who often must travel a considerable distance to the next closest hospital. AHCCCS is continuing to monitor market conditions to ensure that AHCCCS members have adequate access to care.

Micro-Hospitals and Freestanding Emergency Departments

Despite health care industry consolidation, access points in some areas have increased. Dignity Health and Abrazo Health each opened three “micro-hospitals” in recent years. Dignity Health opened St. Joseph Westgate, Arizona General Hospital – Laveen, and Arizona General Hospital – Mesa. Abrazo Health opened Abrazo-Mesa Hospital, Abrazo-Surprise, and Abrazo-Cave Creek. However, Abrazo-Mesa closed in 2022. Phoenix ER & Medical Hospital and Tucson ER & Medical Hospital have previously opened as part of the micro-hospital trend. East Valley ER & Hospital, 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 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 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.

⁸Center 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

⁹ 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>

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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REIMBURSEMENT

In addition to base reimbursement rates, many providers receive time-limited rate increases via DAP initiatives for meeting certain performance or quality criteria, which has increased overall Medicaid reimbursement to hospitals. Furthermore, as noted previously, in HFY 2023 hospitals received a net benefit of \$1.4 billion from the HEALTHII directed payment program.

Medicare also continues to make reductions in payments. As part of the Affordable Care Act (ACA), Congress enacted a number of market basket reductions beginning in 2010, lowering what Medicare pays for services. Beginning April 1, 2013, Medicare imposed a 2% reimbursement reduction due to the Sequestration which, though frozen during the initial portion of the PHE, went back into effect on July 1, 2022 and remains in law. Beginning October 1, 2014, Medicare implemented the hospital-acquired condition (HAC) reduction program. The program applies a one percent payment reduction to hospitals that rank in the bottom 25% of all participating hospitals. The most recent CMS data, used for FY 2024 payments, shows that ten Arizona hospitals were penalized due to the HAC reduction program¹³.

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). The United States Supreme Court ruled in July of 2022 that CMS “acted unlawfully by reducing the reimbursement rates for 340B hospitals”¹⁴. With regard to 340B hospitals to being reimbursed for losses incurred while the cuts were in effect, in the 2024 Outpatient Prospective System (OPPS) Final Rule, CMS reinstated rates to the previous default. CMS also released a separate 2024 OPPS Final Rule providing a remedy for the reduced 340B payments 2018 through September 2022¹⁵.

Looking forward, CMS’s Final Rule published May 10, 2024, makes 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 may impact reimbursement methodology.¹⁶ Another issue to consider for HFY 2024 is the

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

¹⁴ “Supreme Court Rules Unanimously in Favor of AHA, Others in 340B Case”, June 15, 2022. [Supreme Court Rules Unanimously in Favor of AHA, Others in 340B Case](#)

¹⁵ <https://www.federalregister.gov/documents/2023/11/08/2023-24407/medicare-program-hospital-outpatient-prospective-payment-system-remedy-for-the-340b-acquired-drug>

¹⁶ 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>

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potential impact on uncompensated care from the fluctuations in Medicaid enrollment due to end of the pandemic-related continuous coverage provisions in March of 2023.¹⁷

CONCLUSION

The HFY 2022 and HFY 2023 hospital uncompensated cost and profitability data, and the changes observed year-over-year, continue to provide useful information when evaluating hospital finances and the impact of AHCCCS-related changes. Hospital uncompensated care as a percentage of total expenses decreased to 2.2% in HFY 2023. Net operating margins increased from 5.3% to 6.1%. Additionally, the percentage of hospitals with a positive operating margin decreased from HFY 2022 to HFY 2023, from 68.6% to 73.0%.

It is important to be aware that the most recent data included in this report are from HFY 2023. Since hospitals have different fiscal years, the most recently reported years ended between June 2023 and December 2023.

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.

¹⁷<https://www.azahcccs.gov/Resources/Downloads/PopulationStatistics/HistoricPopulationDataforJuly1985toCurrent.pdf>

Appendix A

Medicaid Volume < 25%

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

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Mountain Valley Regional Rehabilitation Hospital
Northern Cochise Community Hospital
Northwest Medical Center - Oro Valley Hospital
Northwest Medical Center - Sahuarita
Northwest Medical Center - Tucson
Rehabilitation Hospital of Northern Arizona
Select Specialty Hospital – Phoenix Downtown
Select specialty Hospital - Tucson (formerly CuraHealth)
Southwest Orthopedic and Spine Hospital dba OASIS Hospital
Steward Florence Medical Hospital
Steward Mountain Vista Medical Center
The CORE Institute Specialty Hospital
Western Arizona Regional Medical Center
White Mountain Regional Medical Center
Wickenburg Community Hospital
Yavapai Regional Medical Center
Yuma Community Hospital (dba Exceptional Community Hospital – Yuma)
Yuma Rehabilitation Hospital

Medicaid Volume 25% - 50%

Abrazo Arizona Heart Hospital
Abrazo Arrowhead Campus
Abrazo Cave Creek Hospital
Abrazo Central Campus
Abrazo Scottsdale Campus
Abrazo Surprise Hospital
Abrazo West Campus
Avenir Behavioral Health Center
Banner - University Medical Center Phoenix
Banner - University Medical Center South
Banner - University Medical Center Tucson
Banner Casa Grande Medical Center
Banner Desert Medical Center
Banner Estrella Medical Center
Banner Gateway Medical Center
Banner Ironwood Medical Center
Banner Ocotillo Medical Center
Banner Payson Medical Center
Banner Thunderbird Medical Center

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Carondelet Holy Cross Hospital (Abrazo)
Carondelet Marana Hospital (Abrazo)
Carondelet St. Joseph's Hospital Tucson (Abrazo)
Carondelet St. Mary's Hospital (Abrazo)
Cobre Valley Regional Medical Center
Copper Springs Hospital
Copper Springs Hospital East
Dignity Health Arizona General Hospital - Laveen
Dignity Health Arizona General Hospital - Mesa
Dignity St. Joseph's Westgate Medical Center
Dignity St. Joseph's Hospital and Medical Center
Flagstaff Medical Center
HonorHealth John C. Lincoln Medical Center
Kingman Regional Medical Center
Little Colorado Medical Center
Mt. Graham Regional Medical Center
Oasis Behavioral Health Hospital
Phoenix Medical Psychiatric Hospital
Promise Hospital of Phoenix
Reunion Rehabilitation Hospital Phoenix
Select Specialty Hospital – Phoenix
Steward Tempe St. Luke's Hospital
Summit Healthcare Association
The Guidance Center
Tucson Medical Center
Valley View Medical Center
Verde Valley Medical Center
Via Linda Behavioral Hospital
Windhaven Psychiatric Hospital
Yuma Regional Medical Center

Medicaid Volume > 50%

Aurora Behavioral Healthcare
Aurora Behavioral Healthcare - Tempe
Banner Behavioral Health Hospital
Cornerstone Behavioral Health El Dorado
Destiny Springs Healthcare
Haven Behavioral Hospital of Phoenix
Page Hospital (Banner)

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Palo Verde Behavioral Health
Phoenix Children's Hospital
Quail Run Behavioral Health
Sonora Behavioral Health Hospital
Steward St. Luke's Behavioral Hospital
Valley Hospital
Valleywise (formerly Maricopa Medical Center)

Appendix B

Hospitals included in each hospital system are as follows:

Abrazo/Tenet

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

Banner Health

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

Community Health Systems

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

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Dignity Health

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

Encompass Health

Encompass East Valley Rehabilitation Hospital
Encompass Rehabilitation Hospital of Southern Arizona (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 / Greenbaum Specialty Surgical Hospital
HonorHealth Scottsdale Shea Medical Center
HonorHealth Sonoran Crossing Medical Center
HonorHealth Scottsdale Thompson Peak Medical Center

Lifepoint Health

Canyon Vista Medical Center
Havasu Regional Medical Center
Valley View Medical Center
Dignity Health East Valley Rehabilitation Center – Gilbert

Select Medical

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

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Steward Health Care

Florence Hospital, a campus of Mountain Vista Medical Center, LP

Mountain Vista Medical Center

St. Luke's Behavioral Hospital

Tempe St. Luke's Hospital

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Appendix C – See separate attachment

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Appendix D

Total COVID-19 Provider Relief Funds as reported on 2023 Medicare Cost Reports:

Hospitals	Total
ABRAZO ARROWHEAD CAMPUS	\$3,053,438.00
ABRAZO WEST CAMPUS	\$3,433,709.00
COPPER QUEEN COMM. HOSP.	\$700,000.00
HAVASU REGIONAL MEDICAL CENTER	\$13,064.00
MERCY GILBERT MEDICAL CENTER	\$570,117.00
PALO VERDE BEHAVIORAL HEALTH	\$25,289.00
PHOENIX CHILDRENS HOSPITAL	\$1,679,457.00
REHABILITATION HOSPITAL OF NORTHERN	\$114,000.00
SAGE MEMORIAL HOSPITAL	\$412,669.00
SSH - ARIZONA INC.	\$82,094.00
ST. JOSEPHS HOSPITAL & MEDICAL CTR	\$2,543,280.00
SUMMIT HEALTHCARE	\$142,037.00
VALLEYWISE HEALTH MEDICAL CENTER	\$374,070.00