For further information call:
Robert B. Murray
410-764-2605

For release 1:30 p.m. EST
Wednesday, July 6, 2005

Average Amount Paid For A Hospital Stay in Maryland

The rate of increase in charges for an average hospital stay in Maryland increased above the rate of increase nationally for similar charges in Fiscal Year (FY) 2004, according to a report released today by the Maryland Health Services Cost Review Commission (HSCRC). This development, which had been anticipated, reflects realization of the effects of a policy implemented by the HSCRC two years ago to increase rates and thereby help revitalize and recapitalize a hospital industry that had seen its profitability become seriously depressed and its ability to enter the capital markets to finance new facilities seriously impeded. Even with the higher rate of increase, the actual amount patients paid for a hospital stay in Maryland remained below what patients paid nationally in 2004.

While it is also anticipated that Maryland's unique hospital rate system will shortly once again refocus on bringing the rate of increase in costs and charges below the national average, as has been customary, hospitals in Maryland should now be able to more easily upgrade their capital facilities, access the highest degree of state of the art technology, and improve the already

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DISCLOSURE OF

HOSPITAL FINANCIAL AND STATISTICAL DATA

As anticipated, the rate of increase in charges for an average hospital stay in Maryland increased above the rate of increase nationally for similar charges in Fiscal Year (FY) 2004. This heretofore unusual development reflects realization of a policy implemented by the Maryland Health Services Cost Review Commission (HSCRC) two years ago to increase rates and thereby help revitalize and recapitalize a hospital industry that had seen its profitability become seriously depressed and its ability to enter the capital markets to finance new facilities seriously impeded. The average amount billed to a patient for a hospital stay in Maryland rose by 9 percent in Fiscal Year (FY) 2004 to $8,403 from $7,707 in FY 2003, according to figures released today by the HSCRC. Nationally, the average charges billed to a patient for a hospital stay rose by 5.9%, based on the National Hospital Indicator Survey, a survey tool commissioned by the federal government to assess overall hospital performance. Even with the higher rate of increase, the actual amount a patient pays for a hospital stay in Maryland remained below what patients paid nationally in 2004.

Also, the mark-up, the difference between hospital costs and charges, in Maryland hospitals remained the lowest in the nation at 20 percent compared to the average mark-up of 152 percent for hospitals nationally, according to the most recent data from the American

Hospital Association (AHA). In the absence of rate setting, non-Maryland hospitals must artificially mark-up their charges by 100-200 percent in order to corner shortfalls due to uncompensated care, discounts to large HMOs, and low payments from Medicare and Medicaid.

This issue of charges to the "self-pay" patients remains under review by Congress. In Maryland, the payment system builds the cost of uncompensated care into the rates, and all payers pay the same rates for hospital care.

In addition, an analysis of hospital costs shows that the average cost per adjusted admission to Maryland hospitals increased by 7.4 percent during FY 2004. In FY 1976, the cost per adjusted admission to a Maryland hospital was 26 percent above the national average. In FY 2003, the year for which the most recent data are available from AHA, the average cost per adjusted admission was 5.0 percent below the nation. From 1977 through 2003, Maryland experienced the second lowest cumulative growth in cost per adjusted admission of any state in the nation.

The HSCRC, established to regulate rate for all those who purchase hospital care, is this country's pioneer hospital rate review agency.

The HSCRC began regulating hospital rates in 1974 and has assisted Maryland hospitals for the majority of the intervening years in remaining well below the national rate of hospital cost increases.

Equivalent Inpatient Admissions (EIPAs) is a statistic that equals inpatient admissions plus an adjustment to include outpatient visits.

The new financial disclosure shows that for Maryland acute hospitals in FY 2004:

1) The average *charge* per admission for regulated activities increased 8.5 percent to $9,784 in FY 2004 from $9,020 in FY 2003.

2) The average *cost* per EIPA for regulated activities increased 7.4 percent to $8,101 in FY 2004 from $7,542 in FY 2003.

3) The average *payment* received by Maryland hospitals per EIPA for regulated activities increased by 9 percent to $8,403 in FY 2004 from $7,707 in FY 2003.

4) As intended, profits on regulated activities increased substantially in FY 2004, from $249 million (3.5 percent of regulated net operating revenue) to $353 million (or 4.5 percent of regulated net operating revenue).

5) Profits on operations (which include profits and losses from regulated and *unregulated* day-to-day activities) increased from $118 million (or 1.54 percent of total net operating revenue) in FY 2003 to $199 million in FY 2004 (or 2.3 percent of total net operating revenue).

6) Total excess profits (which include profits and losses from operating and non-operating activities) increased to$262 million in FY 2004 (or 3.1 percent of the total revenue) from $190 million in FY 2003 (or 2.5% of the total revenue).

7) Total net patient revenue rose from approximately $6.9 billion in FY 2003 to $7.7 billion in FY 2004, an increase of 11.35 percent, due, in part, to a 2.3 percent increase in admissions.

8) The positive profitability results reflect, in large part, Maryland hospitals' fulfillment of their pledge to control their expenses during this period of time in order to accomplish the HSCRC goal of improving the financial condition of the

industry.

Outpatient gross revenue was $2.5 billion. This represented an increase of 10.4 percent in FY 2004 compared to an increase of 8.6 percent in FY 2003. As a percentage of total revenue, outpatient revenue decreased in FY 2004 to 28.04 percent from 28.21 percent in FY 2003.

Hospital admissions increased from 632,015 in FY 2003 to 646,422 in FY 2004, or 2.3 percent. In addition, hospital emergency room and clinic visits increased from 3,222,626 in FY 2003 to 3,447,166 in FY 2004, or 7 percent.

A unique feature of the Maryland hospital rate system is the coverage of the reasonable cost of providing care to those who cannot pay -- i.e., uncompensated care. Maryland continues to be the only state in the nation that assures its citizens that they can receive care at any hospital regardless of their ability to pay. In Maryland alone, uncompensated care is financed by all payers, including Medicare and Medicaid. As a result, there are no charity hospitals in Maryland; patients who are unable to pay are not transferred into hospitals of "last resort." In 2004, Maryland hospitals incurred approximately seven cents of uncompensated care cost (which totaled $583 million) for every dollar of gross patient revenue. Approximately 85 percent of the statewide uncompensated care expenditure originated in the State's metropolitan areas.

The HSCRC was established by the General Assembly in 1971. It is an independent Commission functioning within the Department of Health and Mental Hygiene. It consists of seven members who are appointed by the Governor. The Commission's rate review authority includes assuring the public that: (a) a hospital's total costs are reasonable; (b) a hospital's aggregate rates are reasonably related to its aggregate costs; and (c) rates are set equitably among all purchasers of care without undue discrimination or preference.

exceptional level of quality care rendered to their patients. According to the report, the "Disclosure of Hospital Financial and Statistical Data," the average amount charged a patient for a hospital stay rose by nine percent in FY 2004 to $8,403, from $7,707 in FY 2003. The national rate of increase for the same time period was 5.9 percent.

The rate system has retained other unique benefits, such as keeping the mark-up to hospital costs (i.e., the difference between hospital costs and charges) the lowest in the nation. In Maryland, the mark-up in Maryland hospitals averaged 20 percent, while the average mark-up for hospitals nationally is 152 percent, according to the most recent data from the American Hospital Association.

In the absence of rate-setting, the rest of the nation's hospitals must artificially mark-up their charges by 100-200 percent in order to cover shortfalls due to uncompensated care, discounts to large HMOs, and low payments from Medicare and Medicaid. These marked-up charges make payment difficult for the "self-pay" patients. This issue of charges to the "self-pay" patients remains under review by Congress. In Maryland, the payment system builds the cost of uncompensated care into the rates, and all payers pay the same rates for hospital care.

In addition, an analysis of hospital costs shows that the average cost per adjusted admission to Maryland hospitals increased by 7.4 percent during FY 2004. From 1977 to 2003, Maryland hospitals experienced the second lowest cumulative growth in cost per adjusted admission of any state in the nation.

The goals of the rate system, redesigned in 2001, are being realized, according to HSCRC Chairman Irvin W. Kues:

"The Commission has always taken most seriously our mission of properly balancing the interests of the providers, the payers, and the public. The longstanding success of the

Commission in controlling the rate of growth in hospital costs and charges has provided us with the flexibility at this time to be able to address the difficulties experienced by hospitals in remaining financially viable and in keeping up technologically with the demands of providing the highest quality health care for our citizens. We will never lose sight of our commitment to be guided by the public interest in achieving the right balance."

The report also showed that:

- Uncompensated care (i.e., bad debt and charity care) was $583 million in FY 2004 (seven percent of gross patient revenue) compared to $546 million in FY 2003.
- As intended, hospital profitability increased substantially in FY 2004:
  - ✓ Total audited profits, which include profits and losses from operating and non-operating activities increased to $262 million in FY (3.1 percent of total revenue) from $190 million (2.5 percent of total revenue).
  - ✓ Profits on regulated activities in FY 2004 increased to $353 million (4.5 percent of regulated net operating revenue) from the previous year's $249 million (3.5 percent of regulated net operating revenue).
  - ✓ Profits on operations on both regulated and unregulated activities increased from the previous year's $118 million (1.5 percent of total operating revenue) to $199 million in 2004 (2.3 percent of total net operating revenue).
  - ✓ These positive results reflect, in large part, Maryland hospitals' fulfillment of their pledge to control their expenses during this period in order to accomplish the HSCRC goal of improving the financial condition of the industry.

- Total net patient revenue increased 11.35 percent to $7.7 billion in FY 2004 from $6.9 billion in FY 2003, due, in part, to a 2.3 percent increase in admissions.

Chairman Kues cited the longstanding cooperation that has existed among the Commission's staff, hospitals, payers, business and labor as being indispensable to the Commission's ability to achieve the overall goals of the system.

> "In Maryland, we have been able to preserve the basic tenets of the rate setting system, as well as the federal waiver, which remains the lynchpin of the system. Because of it, our state, unlike any other in the nation, can offer its residents unparalleled access to hospital care regardless of their ability to pay. Our record of achievement would not be possible without the cooperative spirit of working together to meet the challenges of maintaining a stable and viable hospital system in an ever-changing health care environment. We will not rest on our past laurels, nor will we become oblivious to the changes taking place or to the opportunities that arise which allow us to do even more. That is why, for example, we are embarking on a Quality Initiative that will incorporate the Commission's authority over hospital rates and revenue to improve the quality, efficiency, and effectiveness of patient care provided at Maryland hospitals. Once again, this initiative can only prove successful if we continue to work together for the common good."

Editor's Note: The Disclosure of Hospital Financial and Statistical Data report can be found in PDF and Word formats under What's New-Press Releases titled "July 6, 2005 Hospital Disclosure Report." The HSCRC website can be found at HTTP://www.hscrc.state.md.us.

DISCLOSURE OF HOSPITAL FINANCIAL AND STATISTICAL INFORMATION FOR HOSPITALS WITH FISCAL YEARS ENDING

June 30, 2004, August 31, 2004

and December 31, 2004

By:

HEALTH SERVICES COST REVIEW COMMISSION

July 6, 2005

Introduction

Historically, the Commission has published an annual comparison of Maryland hospitals' regulated cost per adjusted admission with the national average cost per adjusted admission in the Executive Summary of its Disclosure of Financial and Statement Data (Report). In the past, the Commission believed that cost per adjusted admission was the best measure of hospital costs affected by rate regulation and within a hospital's control. Beginning with last year's report, the Commission shifted its primary attention from cost per adjusted admission to net revenue per adjusted admission. The Commission did so because net revenue per adjusted admission better indicates what Maryland citizens pay for hospital care.

Last year, the Commission made several additional changes to the Report. The first major change was the expansion of the Report to include both regulated and unregulated operating data. Also, the chronology of the data presented in the Report was changed to include all annual data for the fiscal year ended in that calendar year, e.g., data from hospitals with fiscal years that end December 31, 2004 are included with data from hospitals with June 30 and August 31, 2004 fiscal year ends. The Commission implemented these changes so that Maryland hospitals' data would be consistent with the manner in which national hospital data are published by the American Hospital Association.

The Commission will continue to use cost per adjusted admission as a secondary measure of hospital performance in the Report. Because of the importance of per capita costs in determining health care premiums and taxes, the Commission will explore estimates of this measure, which involve the use of migration, case mix, and population data.

Contents of Report

Under its mandate to "cause the public disclosure of the financial operations of all hospitals," the Commission has prepared comparative statements from information made available by the respective hospitals.

Gross Patient Revenue, Net Patient Revenue, Other Operating Revenue, Net Operating Revenue, % Uncollectible Accounts, Total Operating Costs, Operating Profit / Loss, Non-Operating Income and Expense, and Excess Profit / Loss, as itemized in this Report, were derived from the Annual Report of Revenue, Expenses and Volumes (Annual Report) submitted to the Commission. The Annual Report is reconciled with audited financial statements of the respective institutions.

This year's Disclosure Statement also includes the following seven Exhibits:

Exhibit I - Change in Cost per EIPA (Regulated Operations)

Exhibit II - Change in Revenue per Admission (Regulated Operations)

Exhibit III - Allowance for Charity and Bad Debts (Regulated Operations)

Exhibit IV - Change in Regulated Net Patient Revenue per EIPA

Exhibit V - Change in Total Excess Profit / Loss

Exhibit VI - Change in Total Operating Profit / Loss

The following explanations are submitted in order to facilitate the reader's understanding of this report:

Gross Patient Revenue means all regulated and unregulated patient care revenue and should be accounted for at established rates, regardless of whether the hospital expects to collect the full amount. Such revenues should also be reported on an accrual basis in the period during which service is provided; other accounting methods, such as the "discharge method," are not

acceptable. For historical consistency, uncollectible accounts (bad debts) and charity care are included in gross patient revenue.

Net Patient Revenue means all regulated and unregulated patient care revenue realized by the hospital. Net patient revenue is arrived at by reducing gross patient revenue by contractual allowances, charity care, bad debts, and payer denials, Such revenues should be reported on an accrual basis in the period in which the service is provided.

Other Operating Revenue includes regulated and unregulated revenue associated with normal day-to-day operations from services other than health care provided to patients. These include sales and services to non-patients, revenue from miscellaneous sources, e.g., rental of hospital spaces, sale of cafeteria meals, gift shop sales, research, Part B physician services, etc. Such revenue is common in the regular operations of a hospital, but should be accounted for separately from regulated patient revenue.

Net Operating Revenue is the total of net patient revenue and other operating revenue.

Uncompensated Care is composed of charity and bad debts. This is the percentage difference between billings at established rates and the amount collected from charity patients and patients who pay less than their total bill, if at all. For historical consistency, uncollectible accounts are treated as a reduction in revenue.

Total Operating Expenses equal the costs of Commission regulated and unregulated inpatient and outpatient care, plus costs associated with Other Operating Revenue. Operating expenses are presented in the Report in accordance with generally accepted accounting principles with the exception of bad debts. For historical consistency, bad debts are treated as a reduction in gross patient revenue.

Equivalent Admission (EIPA) is a statistic formulated by the Commission which equals

admissions plus a conversion of outpatient visits into equivalent admissions calculated as follows:

$$\text{EIPAs} = \text{Admissions} \times \frac{\text{Total Gross Patient Care Revenues}}{\text{Gross Inpatient Care Revenues}}$$

Average Cost per EIPA is operating costs divided by EIPAs.

Operating Profit / Loss is the profit or loss from ordinary, normal recurring regulated and unregulated operations of the entity during the period. Operating Profit / Loss also includes restricted donations for specific operating purposes if such funds were expended for the purpose intended by the donor during the fiscal year being reported upon (i.e., June 30, 2004 and December 31, 2004).

Non-Operating Profit / Loss includes investment income, extraordinary gains, and other non-operating gains and losses.

Excess Profit / Loss represents the bottom line figure from the audited financial statement of the institution. It is the total of the Operating Profit / Loss and Non-Operating Profit / Loss. (Provisions for income tax are excluded from the calculation of profit or loss for proprietary hospitals.)

Financial information contained in the Report provides only an overview of the total financial status of the institutions. Additional information concerning the hospitals, in the form of audited financial statements and reports filed pursuant to the regulations of the Health Services Cost Review Commission, is available at the Commission's offices for public inspection between the hours of 8:30 a.m. and 4:30 p.m.

Notes to the Financial and Statistical Data

1. Revenues and expenses applicable to physician Part B professional services are only

included in regulated hospital data in hospitals which had Commission approved physician rates on June 30, 1985 and that have not subsequently requested that those rates be abolished so that the physicians may bill fee-for-service. (Currently, there is less than $1 million in physician Part B revenue and expenses in hospital regulated data.)

2. The Special Hospitals in this Report are: Adventist Health Care-Potomac Ridge, Brook Lane Psychiatric Center, Chesapeake Youth Center, Kessler - Adventist Rehabilitation Hospital, Levindale Hebrew Geriatric Center and Hospital, Mt. Washington Pediatric Hospital, Inc., Sheppard and Enoch Pratt Hospital, St. Luke Institute, and University Speciality Hospital.