Hospital Financial Analysis 2007

The Pennsylvania Health Care Cost Containment Council (PHC4) is an independent state agency charged with addressing the cost and quality of health care in Pennsylvania.

In order to maintain a high quality, cost-effective health care delivery system, hospitals and freestanding surgery centers must be financially viable and effectively managed. PHC4 produces a series of annual reports that measure the financial health of the Commonwealth's hospitals and surgery centers and the utilization of their services.

In response to the high level of interest in the financial condition of Pennsylvania's general acute care (GAC) hospitals, PHC4 is releasing this Preview in advance of its forthcoming *Financial Analysis 2007, Volume One* to be released in Spring 2008.

Information in this Preview is derived from the hospitals' audited financial statements and additional data filed directly by the hospitals. PHC4 wishes to thank the hospitals for their cooperation and timely submissions.

Statewide Income Margins Increase Uncompensated Care Level Rises

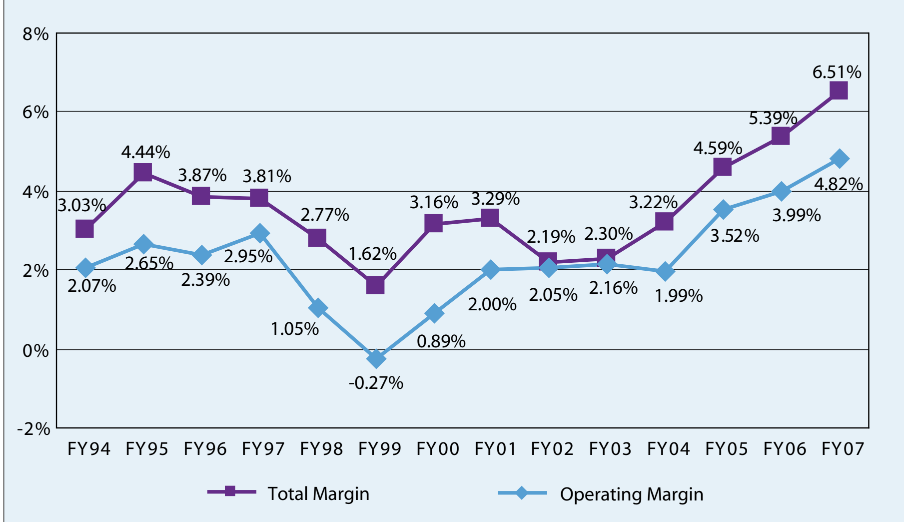
The statewide average total margin (net income) posted by Pennsylvania's 170 general acute care (GAC) hospitals grew by more than a full percentage point, rising from 5.39% in fiscal year 2006 (FY06) to 6.51% in fiscal year 2007 (FY07). This is the fifth consecutive year of growth in statewide hospital income. Over the last four years, the average total margin increased 4.2 percentage points from the 2.30% total margin posted for FY03. The total margin reflects the net income hospitals realized from all sources, including operations, investment gains and contributions.

Similar to FY06, the improvement in the FY07 statewide total margin was the product of increases in both operating income and non-operating gains.

Nearly three-fourths (73%) of the increase in the statewide total margin was the result of a $341 million growth in operating income. As a result, the statewide average operating margin grew from 3.99% in FY06 to 4.82% in FY07.

The other one-fourth (27%) of the increase in statewide net income was the result of a $127 million growth in non-operating income. The primary components of non-operating income are net investment gains, contributions and the net effect of federal taxes on for-profit hospitals.

Statewide Average Total and Operating Margins



Despite Statewide Gains, 24% of GAC Hospitals Lose Money in FY07

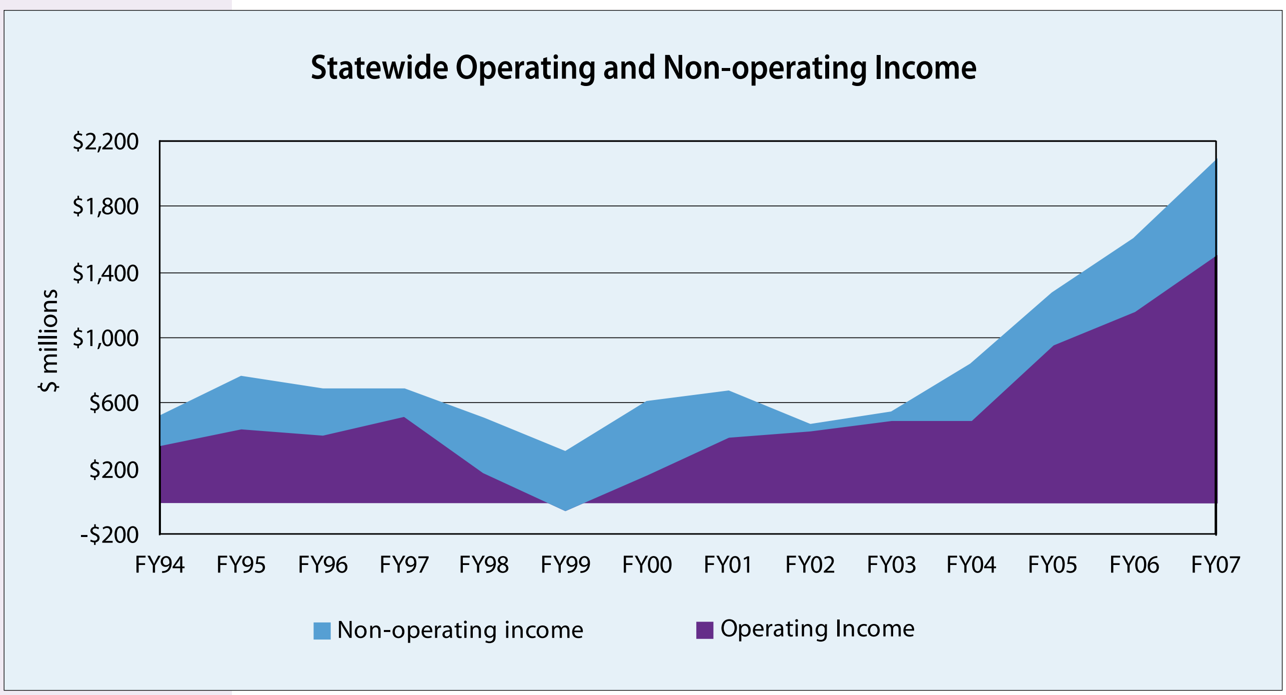
While the statewide average total margin grew more than a full point to 6.51%, 41 or 24% of the 170 reporting GAC hospitals posted a negative total margin in FY07. There were also 41 hospitals (out of 175) that reported negative total margins in FY06.

The number of hospitals with negative operating margins declined from 61 in FY06 to 52 in FY07. For these hospitals, revenue from patient care and other operations was not sufficient to cover operating expenses.

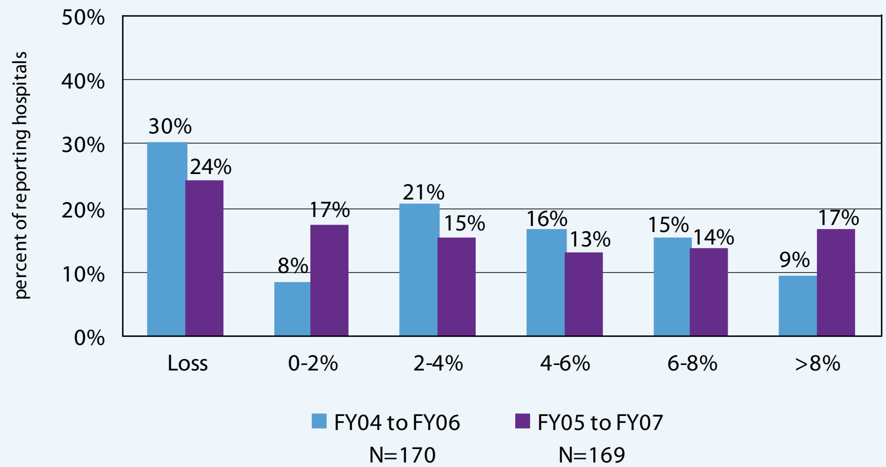
The hospitals with an operating loss were more likely to be smaller community hospitals. Only 15% (8 out of 52) of the hospitals with negative operating margins had annual net patient revenues above $150 million. These 52 hospitals had an average FY07 net patient revenue of about $86 million.

In contrast, the distribution of hospitals with a positive operating margin in FY07 was almost evenly split between hospitals with annual net patient revenue above and below $150 million. Approximately half or 46% (54 out of 118) of the hospitals reporting positive operating margins had net patient revenues above $150 million and 54% (64 out of 118 hospitals) had annual net patient revenue below $150 million. The average net patient revenue for the hospitals with positive operating margins was about $214 million.

Since extraordinary or short-term events can have a significant impact on a hospital's annual total margin, a three-year average total margin can provide some



Statewide Distribution of Three-Year Average Total Margin



3-yr Average Total Margin	Hospitals	
	FY04-FY06	FY05-FY07
Loss	51	41
0-2%	14	29
2-4%	35	26
4-6%	28	22
6-8%	26	23
>8%	16	28
Total	170	169

perspective on a hospital's medium-term financial health.

Ten fewer hospitals had a negative three-year average total margin at the end of FY07. There were 41 hospitals that realized average losses over the three-year period between FY05 and FY07 compared to the 51 hospitals that reported average losses between FY04 and FY06.

Overall, there was a general improvement in three-year average total margin among the 168 hospitals that operated between FY04 and FY07. Two-thirds (66%) or 111 of the 168 hospitals experienced an increase in their three-year average total margin during FY07.

The number of hospitals that posted three-year average total margins above 8% grew by 12, from 16 at the end of FY06 to 28 at the end of FY07.

GAC Hospital Care Represents a Growing Portion of Pennsylvania's Resources

Net patient revenue (NPR), the revenue hospitals receive for patient care, grew about $1.9 billion or 6.9% during FY07. In contrast, Pennsylvania's economy, measured by the Commonwealth's gross domestic product (GDP)*, grew 5.0% during 2006. Since the majority of FY07 GAC hospital care was rendered during 2006, the growth in the Pennsylvania GDP during 2006 is being used for comparison.

Over the past five years between FY02 and FY07, hospital NPR grew 47.2% or an average of 9.4% per year. Over a comparable period between 2001 and 2006, Pennsylvania's GDP grew at nearly half that rate (25.5% or an average of 5.1% per year). The $29.8 billion in FY07 statewide NPR and the $31.3 billion in statewide

* U.S. Bureau of Economic Analysis. www.bea.gov

operating revenue reported by GAC hospitals is equivalent to 5.8% and 6.1% of Pennsylvania's 2006 GDP of $510.2 billion.

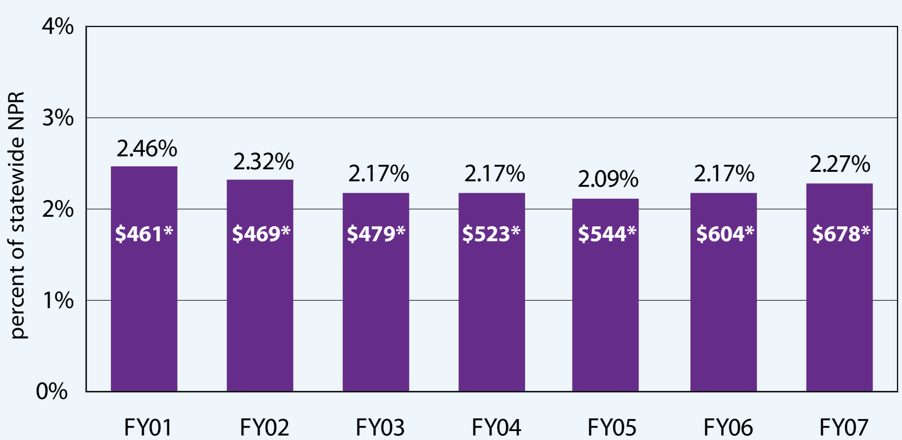
The dynamics of the growth in FY07 patient revenue will be addressed in the forthcoming *Financial Analysis 2007, Volume One.* Over the past few years, increases in reimbursements from commercial insurance plans, funded by employers and government programs, have been a major factor in the growth of hospital revenue.

Uncompensated Care Level Rises

The dollar value of uncompensated care grew by 12.2% or $74 million from $604 million during FY06 to $678 million during FY07. Since statewide uncompensated care grew faster than the 6.9% increase net patient revenue, uncompensated care as a percentage of net patient revenue rose from 2.17% in FY06 to 2.27% in FY07, the highest percentage since FY02.

Uncompensated care revenue provides an estimate of the amount of revenue hospitals lost due to bad debt and charity care. This foregone revenue reflects what hospitals would have received if they had been reimbursed for uncompensated care. The estimate of foregone revenue is based on the average overall reimbursement hospitals received from all payors, including commercial health insurers, Medicare, Medical Assistance and patients.

Statewide Uncompensated Care Revenue



* Statewide Uncompensated Care Revenue in millions.

Pennsylvania Health Care Cost Containment Council
David Wilderman, Acting Executive Director
225 Market Street, Suite 400, Harrisburg, PA 17101
Phone: (717) 232-6787 • Fax: (717) 232-3821
www.phc4.org