May 31, 2019

MEMORANDUM

TO: Chief Executive Officers
    Hospital Administrators
    Chief Financial Officers
    Government Affairs Committee
    Public Relations Executives

FROM: Jim Haynes
    Senior Vice President and Chief Operating Officer

SUBJECT: March 2019 Hospital Financial Results

At a glance
Results for March 2019 show that operating income was slightly above 9 percent compared to March 2018. At the same time, the uncompensated care ran at approximately the same level it has over the last several years.

The graph below illustrates that uncompensated care rose when the number of childless adults covered by the AHCCCS program declined, and then decreased when coverage was restored and expanded to 133 percent of the federal poverty level.

[Graph: Arizona Hospital Uncompensated Care Trends Before and After Medicaid Expansion]
The timeline below reflects the major changes to the AHCCCS program including the Medicaid freeze and restoration.

May 2011
Freeze enrollment in medical spend down program

December 2013
AHCCCS group membership = 68,000

July 2011
Freeze enrollment in the childless adult program

January 2014
Restoration of Prop. 204 and adult expansion to 133% of federal poverty level

May 2019
398,000 enrolled in either Prop. 204 restoration group or adult expansion group.

In the graph below you will find the trend in uncompensated care costs from 2012 -2019.

AHCCCS Population
Although trends show that the AHCCCS population shrunk for a period of time, it has begun to expand once again. Over the past year, overall population served by AHCCCS has increased by 1 percent as shown in the graph below.
On the other hand, the childless adult population financed through the provider assessment declined rather dramatically November 2017 through June 2018. Since then, this population has steadily increased as shown below:

The table below shows the hospital assessment funding the Medicaid restoration and expansion for the first several years, as well as the scheduled assessment for next year:
Other Key Results

In the following table you are able to find the cost of uncompensated care (in millions of dollars) for reporting hospitals compared to prior periods:

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Uncompensated care %</td>
<td>2.8%</td>
<td>2.6%</td>
<td>2.5%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

In March 2013, the percentage of uncompensated care for the month was 6.9 percent, while in March 2012 it was 6 percent. In both 2012 and 2013 the enrollment was frozen.

The operating margins (in millions of dollars) for reporting hospitals compared to prior periods are shown below:

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<thead>
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</thead>
<tbody>
<tr>
<td>Operating margin</td>
<td>4.7%</td>
<td>5.6%</td>
<td>2.9%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

The operating income estimate for the state is based on responses from hospitals representing approximately 71 percent of the hospitals in the state. The table below shows that the operating has significantly increased over the prior three periods.

<table>
<thead>
<tr>
<th>Estimate for All Arizona Hospitals</th>
<th>Twelve Months Ending March</th>
</tr>
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<tbody>
<tr>
<td>Operating Income Estimate</td>
<td>$755</td>
</tr>
<tr>
<td>Uncompensated Care Costs Estimate</td>
<td>414</td>
</tr>
<tr>
<td>Average Operating Margin</td>
<td>4.7%</td>
</tr>
<tr>
<td>Average Uncompensated Care Percentage</td>
<td>2.7%</td>
</tr>
</tbody>
</table>
I have attached a schedule showing the results for March 2019, along with a comparison of results to the same group of hospitals reporting in 2016-2018. The schedule also shows who responded to the survey. Approximately 71 percent of the hospitals, based on discharges have responded to the survey.

If you have any questions, please feel free to contact me directly.