Health Economics Program

Issue Brief
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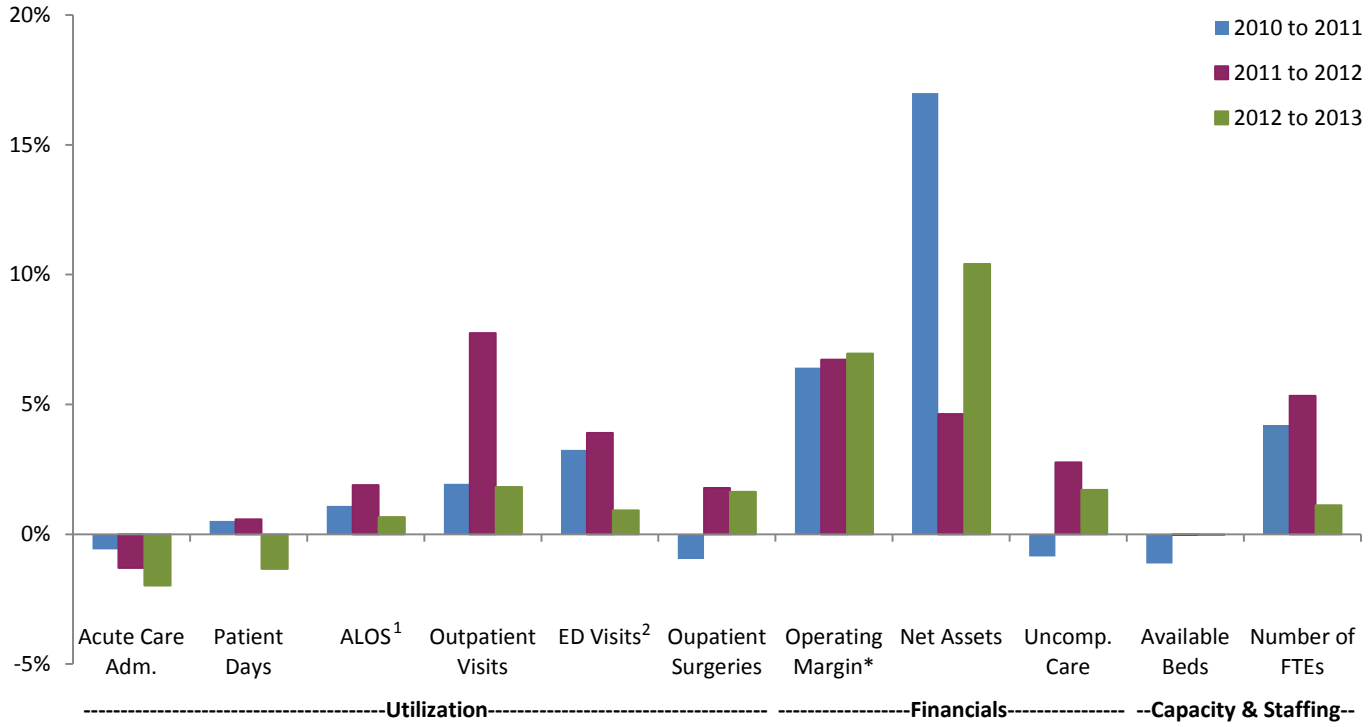
Trends at Minnesota Community Hospitals in 2013

Minnesota's community hospitals are a vital element of the state's health care delivery system. The state's hospitals provide essential medical procedures, emergency services, and routine health care which millions of Minnesotans rely on every year. This Issue Brief analyzes trends of selected indicators at Minnesota's 133 community hospitals in utilization of services, financial performance and changes in delivery system capacity, drawing on data annually submitted to the Minnesota Department of Health (MDH) for the period of 2010 to 2013. This report also compares trends between Critical Access Hospitals, smaller facilities that are largely prevalent in rural areas of the state, and larger facilities, classified by the federal government as "Prospective Payment System" (PPS) hospitals.

Figure 1
Utilization Trends at Minnesota Community Hospitals, 2010 to 2013
Percent Change from Previous Year



Source: MDH analysis of hospital annual reports. Values for percent change can be found in Table 1.
*Actual value
1 Average Length of Stay
2 Emergency Department Visits

Utilization

Acute care admissions and patient days in 2013 declined for Minnesota hospitals in aggregate (see Figure 1 and Table 1). The 2.0 percent decline in acute care admissions in 2013 continued a trend from previous years; in contrast, the decrease of 1.3 percent for patient days represents a reversal of previous years' moderate growth.

While inpatient days and acute care admissions declined relative to the previous year, the average length of stay for Minnesota hospitals continued to increase between 2012 and 2013, by 0.7 percent.

Table 1
Key Indicators for Community Hospitals, 2010 to 2013

	2010	2011	2012	2013
		Inpatient Utilization		
Acute Care Admissions	571,371	568,059	560,679	549,605
Patient Days	2,405,989	2,418,312	2,432,198	2,399,845
Average Length of Stay	4.21	4.26	4.34	4.37
		Outpatient Utilization		
Outpatient Visits	10,134,992	10,331,967	11,132,096	11,334,137
Emergency Dept. Visits	1,692,875	1,747,963	1,816,217	1,832,951
Outpatient Surgeries	418,936	414,931	422,320	429,243
		Financials		
Operating Margin*	6.9%	6.4%	6.7%	7.0%
Net Assets	$8,630,482,897	$10,097,116,696	$$10,565,110,889	$11,665,369,959
Uncompensated Care	$310,776,099	$308,111,896	$316,656,949	322,079,794
		Capacity & Staffing		
Available Beds	11,858	11,724	11,721	11,717
Number of FTEs	78,174	81,458	85,800	86,764

Key Indicators from Minnesota Community Hospitals Growth from Previous Year, 2010 to 2013

	2010 to 2011	2011 to 2012	2012 to 2013
	Inpatient Utilization		
Acute Care Admissions	-0.6%	-1.3%	-2.0%
Patient Days	0.5%	0.6%	-1.3%
Average Length of Stay	1.1%	1.9%	0.7%
	Outpatient Utilization		
Outpatient Visits	1.9%	7.7%	1.8%
Emergency Dept. Visits	3.3%	3.9%	0.9%
Outpatient Surgeries	-1.0%	1.8%	1.6%
	Financials		
Operating Margin*	6.4%	6.7%	7.0%
Net Assets	17.0%	4.6%	10.4%
Uncompensated Care	-0.9%	2.8%	1.7%
	Capacity & Staffing		
Available Beds	-1.1%	0.0%	0.0%
Number of FTEs	4.2%	5.3%	1.1%

*Actual value
Source: MDH analysis of hospital annual reports.

In trying to better understand these trends, MDH studied preliminary hospital billing data with the following results:

- The level of reported severity for inpatient stays rose between 2010 and 2012, suggesting that the mix of patients appears to be changing as less complex patients are perhaps treated more frequently in outpatient settings; this trend did not persist past 2012.
- While the number of inpatient admissions declined between 2010 and 2013, the number of observation stays[1] increased over the same time period, with the ratio of observation stays to inpatient stays increasing from 0.22 in 2010 to 0.31 in 2013. This indicates that hospitals may be utilizing observation stays for lower severity patients.

While inpatient utilization was down in 2013, outpatient utilization saw continued, albeit slower, growth. Both outpatient surgeries and outpatient visits increased in 2013, with outpatient surgeries up by 1.6 percent and outpatient visits up by 1.8 percent. Visits to Emergency Departments also continued to increase between 2012 and 2013, but growth slowed to just under one percent during this period, down from over three percent per year between 2010 and 2012.

Financials

Industry-wide, Minnesota hospitals' operating margin and net assets increased in 2013 with an average operating margin of 7.0 percent, slightly higher than previous years, as shown in Figure 1.[2] The growth in net assets[3] at the state's hospitals increased again in 2013, by 10.4 percent. In the previous two years net assets had increased 4.6 percent and 17.0 percent respectively. Growth in uncompensated care was moderate with an increase of 1.7 percent in 2013, down from an increase of 2.7 percent in 2012.

The historically strong operating and profit margins, as well as the increase in net assets, may help position many Minnesota hospitals well for ongoing efforts in payment and delivery system reform. These changes move hospitals' business models further away from fee-for-service payments and incentives to deliver volume-driven health care services.

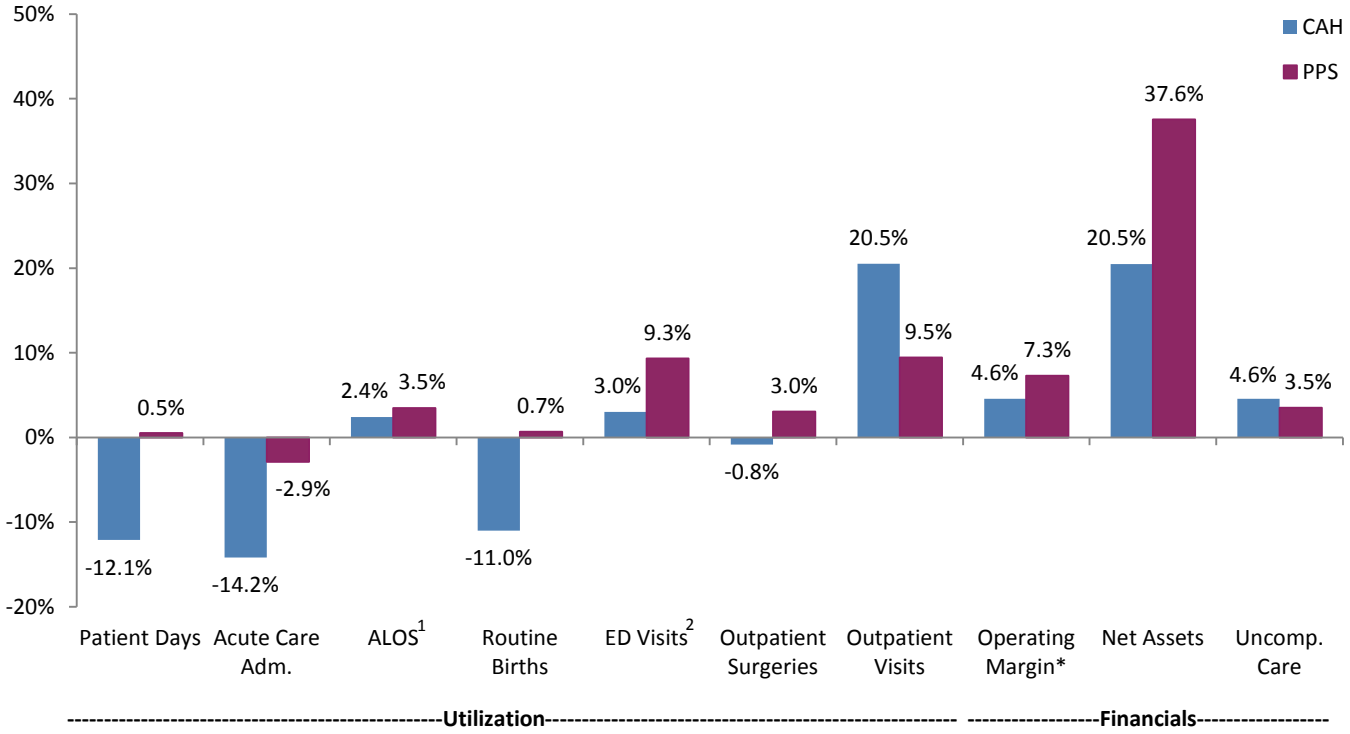
Capacity and Staffing

The increase in staffing for Minnesota's hospitals that we observed after the great recession slowed somewhat in 2013 with an increase of 1.1 percent, down from 4.2 percent in 2012 and 5.3 percent in 2011 (Figure 1).

Critical Access Hospitals and Prospective Payment System Hospitals

In analyzing the hospital industry, researchers typically distinguish between Critical Access Hospitals (CAHs) and hospitals funded under the Prospective Payment System (PPS). The distinction is important, because it reflects different geographies and mechanisms of reimbursement by the federal Centers for Medicare & Medicaid Services, the agency that reimburses for care for Medicare patients. CAHs are smaller rural facilities that must meet certain federal criteria; they are also reimbursed on a cost-plus basis.[4] In Minnesota, the 78 CAHs account for 58.6 percent of all inpatient facilities. Minnesota's PPS hospitals account for the remaining 55 hospitals. They generally represent larger facilities located in urban areas with hundreds of beds, but also include smaller county and city hospitals with fewer than 75 beds.

Figure 2
Trends at Minnesota Hospitals by Type of Facility, 2010 to 2013



*Actual value
Source: MDH analysis of hospital annual reports.
1 Average Length of Stay
2 Emergency Department Visits

As shown in Figure 2, utilization at Minnesota's CAHs showed steeper declines when compared with the state's PPS hospitals with sharp drops in patient days and acute care admissions from 2010 to 2013, and lower increases in the average length of stay. Routine births were one factor in explaining the difference in the contraction in inpatient utilization. The period between 2010 and 2013 saw declines in CAH births of 11 percent, at a time when PPS hospital births rose just short of 1 percent. Slower population growth rate and a shifting age distribution in Minnesota's rural areas likely a contributing factor to these trends.[5,6] While emergency department visits and outpatient surgeries increased faster at the state's PPS hospitals, total outpatient visits increased faster for the state's CAHs.

Operating margins at CAHs in 2013 were lower than at PPS hospitals, 4.6 percent compared to 7.3 percent. Net assets at the state's PPS hospitals increased faster than the CAHs between 2010 and 2012. The faster growth of net assets for PPS hospitals may reflect not only the increased utilization at the PPS hospitals, but also the increased value of the real estate and investment holdings, which are included in net assets, at the state's PPS hospitals.

Despite the decline in patient days and admissions at the state's CAHs, hiring at these hospitals was on pace with the state's PPS hospitals, with increases of 10.7 percent and 11.0 percent, respectively, for 2010 to 2013 (data not shown). The increase in routine health care from total outpatient visits at the CAHs likely contributed to the increased need for staffing as most other utilization metrics declined during this time. The growth in employment at rural hospitals also demonstrates their importance as employers and economic engines in their communities.

Conclusions

Trends in movement away from inpatient care to outpatient care utilization continued in 2013 in Minnesota hospitals. Financially, Minnesota hospitals continued to perform well with strong operating margins and moderate uncompensated care costs. For the state's CAHs, overall utilization growth lagged behind the state's PPS hospitals, but strong growth specifically in outpatient visits demonstrates their importance to the state's rural health care delivery system.

The MDH Health Economics program makes available additional information on the state's hospital system in Section 8 of the Minnesota Health Care Markets Chartbook that can be found online: Chartbook Section 8 (http://www.health.state.mn.us/divs/hpsc/hep/chartbook/index.html)

Endnotes

[1] Observation stays are hospital stays of less than 24 hours. They are not considered inpatient, and are generally charged at a different rate than inpatient stays.
[2] Operating margins for Minnesota hospitals during 2013 varied from a negative 29.5% to a high of 26.0%. As in previous years, MDH will be releasing more detailed financial data by hospital as part of its online health care marketplace updates: Chartbooks (http://www.health.state.mn.us/divs/hpsc/hep/chartbook/index.html)
[3] "Net assets" is an accounting term defining the total assets minus the total liabilities, and describes the hospital's financial position.
[4] The criteria for critical access hospitals includes: the hospital is located in a rural area, the hospital is located more than 35 miles from another hospital, the hospital furnishes 24 hour emergency care, and the hospital has no more than 25 beds. For more information on Minnesota's critical access hospitals visit Critical Access Hospitals (http://www.health.state.mn.us/divs/orhpc/flex/cah/)
[5] "Demographics of an Aging Population", Minnesota Department of Health, Fall 2005.
[6] "WIC demographics 101", Susan Brower, State Demographer Minnesota Dept. of Administration, October 2013

The Health Economics Program conducts research and applied policy analysis to monitor changes in the health care marketplace; to understand factors influencing health care cost, quality and access; and to provide technical assistance in the development of state health care policy.

For more information, contact the Health Economics Program at (651) 201-3550 or health.hep@state.mn.us. This issue brief, as well as other Health Economics Program publications, can be found on our website at the Health Economics Homepage (http://www.health.state.mn.us/healtheconomics)

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