

## **EXECUTIVE SUMMARY**

### **Significant Agency Activities 2002**

- ! In 2002, the West Virginia Health Care Authority (Authority) continued its work on the West Virginia Indicator Project. By the fall of 2003, the Authority will complete its analysis and make a manageable number of concrete recommendations to address the State's most pressing health care needs.
- ! The Authority received funding and has begun work on a year-long project to develop West Virginia's solution for providing health care coverage to the sizeable percentage of working-age adults who do not have health insurance as well as to seniors who do not have Medicare supplemental coverage.
- ! The Authority has significantly increased its health-related data repository and analysis functions.
- ! Four Certificate of Need standards were revised with four additional standards planned for revision in 2003.
- ! The Authority amended its benchmarking rate review system making it more streamlined and less onerous to the health care industry.
- ! The Authority has become more customer friendly by making a significant amount of its public information available on the Internet.

### **Financial Overviews**

- ! Hospitals as a whole fared better financially in FY 2001. On average, Net Income doubled over the prior year.
- ! Acute care hospitals as a group improved financially. One fourth of the acute care hospitals had negative margins, while one fourth had margins over 5%. A majority of facilities (24) lost money on patient services. The losses were offset by gains on other revenue. However, other revenue percentages are down from the prior year.
- ! While Critical Access Hospital financial performance improved, it remained in a negative position at -0.7%. Medicare has designated two additional facilities as CAHs.
- ! Psychiatric hospitals generated a marginal profit with an increased number of admissions.
- ! Rehabilitation hospitals generated a profit consistent with prior year trends.



## **EXECUTIVE SUMMARY (continued)**

- ! While home health providers reported net losses of 6%, it was an improvement from prior years.
- ! Behavioral health providers reported declining financial performance at 1.3% in FY 2001.
- ! The nursing home financial outlook declined from the prior year.
- ! Hospice providers broke even financially in FY 2001.

# **West Virginia Health Care Authority**

**West Virginia Department of Health and Human Resources**

## **Annual Report to the Legislature**

**January 5, 2003**

### **I. Introduction**

#### **History of the Agency**

In 1983, the Health Care Cost Review Authority (HCCRA) was created as an autonomous agency within State government. It was charged with the responsibility of collecting information on health care costs, developing a system of cost control and ensuring accessibility to appropriate acute care services. Over the years the legislature has assigned the agency additional responsibilities and renamed it the Health Care Authority (Authority).

The Authority's statutory duties include:

- ! Protecting the public from unreasonable and unnecessary increases in the cost of acute care hospital services, deterring cost-shifting through review of discount contracts and rates for non-governmental payors.
- ! Determining if proposed health care services, new construction, renovations and purchases of major medical equipment are needed, financially feasible and consistent with the State Health Plan through the Certificate of Need (CON) Program.
- ! Serving as the coordinating agency for the collection, analysis and reporting of health-related data, including financial information on a wide range of health care facilities through the Health Care Financial Disclosure Act.
- ! Implementing health planning through the State Health Plan.
- ! Providing economic and technical assistance to rural health systems through the Rural Health Systems Program (RHSP).

## **II. Significant Agency Activities in Calendar Year 2002**

### **Health Planning**

#### *West Virginia Indicator Project*

In 2002, the Authority continued its work on the project. Claims data from Medicare, West Virginia Blue Cross and Blue Shield and Carelink Health Plans were added to the database.

The complete data sets necessary to determine specific health care needs and their concentration will be fully operational in the spring of 2003. Interim analysis will be conducted on those data sets already in hand.

Development of a comprehensive inventory of existing health care resources is in progress. The listing of physicians and other independent practitioners by specialty and Full Time Equivalent (FTE) status is scheduled for completion in the spring. Mapping of the providers using Geographical Information Systems (GIS) software will also be completed in this time frame.

In 2003, the Authority expects to complete the Indicator project. Comprehensive results and recommendations are expected by fall.

#### *Coverage for the Uninsured*

In 2001, the Authority and the Robert Wood Johnson Foundation's State Coverage Initiatives program provided funding to the West Virginia Institute for Health Care Policy and Research to conduct and analyze a comprehensive survey of 16,493 households in West Virginia to determine the extent of health insurance needs, focusing particularly on those that do not have insurance and those who do not have enough insurance.

The West Virginia Health Care Survey conducted in late 2001 showed that while West Virginia has been very successful in providing health insurance coverage to its children leaving only 6.6 percent without coverage. Unfortunately, one of every five working age adults in West Virginia does not have health care coverage and nearly a third of West Virginia seniors do not have Medicare supplemental insurance to help pay for preventive care and prescription drugs.

In 2002, the Authority in partnership with the Institute applied for and was awarded a \$1.97 million grant from the Health Resources and Services Administration (HRSA) State Planning Grant (SPG) Program to develop West Virginia's plan for addressing this unacceptable rate of people without insurance.

Over the next year, the Authority will work with the grant's Health Advisory Group composed of business, labor, consumer and community leaders to develop West Virginia's solution.

### Health Care Quality and Outcomes Measures

The Quality Utilization Advisory Group formed by the Authority has continued to work toward establishing quality benchmarks for end-of-life care, low back injury treatment, and management of diabetic patients. In 2003, quality benchmarks for the management of cardiovascular disease will be developed.

Over the next year, the Authority will complete an inventory of outcome and quality measures collected by the various state and government-contracted agencies. Duplication will be identified and recommendations for efficiencies will be made.

### **Comprehensive Health-Related Information System (CHRIS)**

In 2002, the Authority increased the amount and type of data available for analysis including the addition of:

- ! Medicare, Blue Cross and Blue Shield and Carelink outpatient claims data with patient identification factors removed
- ! Medicare Cost Report data
- ! Public Health Vital Statistics data

In 2002, the Authority increased the complexity of the web-based inpatient claims data search engine.

In 2003, the Authority will pilot electronic submission of Uniform Financial Report information.

The 2003 Financial disclosure surveys for nursing homes, home health and hospice have been redesigned and streamlined to eliminate reporting data already obtained by other agencies.

### **Certificate of Need (CON)**

The Authority is in the process of reviewing and updating all of its CON standards. Over the past year, the following standards have been revised:

- ! Cardiac Catheterization Services
- ! Addition of Acute Care Beds
- ! Renovation-Replacement of Acute Care Facilities and Services
- ! Megavoltage Radiation Therapy Services

In addition, the Authority issued standards allowing a limited number of demonstration projects covering therapeutic heart catheterization without open heart backup at three sites across the state. All three sites have been approved. Weirton Medical Center has been operational for seven (7) months; United Hospital Center and St. Francis Hospital are to become operational in 2003.

In 2003, the Authority will revise standards for Ambulatory Care Services including Ambulatory Surgery Centers, Home Health Services and Behavioral Health Services.

The Authority has received an enormous increase in the number of and total cost of CON applications. In Fiscal Year (FY) 2001, the Authority approved \$64 million in CON projects. In FY 2002, the Authority approved \$91 million. In the first six months of FY 2003, the Authority approved \$65 million. The Authority currently has \$665 million in CON projects pending review.

### **Hospital Rate Review**

In FY 2001, the average rate increase granted by the Authority was 5.9%.

During 2002, the Authority developed significant improvements to its Benchmarking Rate Review system for consideration by the Legislature. This streamlined system was developed in conjunction with representatives of hospitals, third-party payors, businesses, and labor.

In FY 2001, the Authority instituted an Abeyance Reduction Program to lower the amount of rate penalties held in abeyance. In order to participate in the program, hospitals must perform services that benefit the health of the community such as health screenings. The projects may be existing, new or expanded services. During the first year of the program (FY 2002) approximately \$15 million in abeyances were reduced.

### **HIPAA**

In February 2002, Governor Bob Wise charged the Authority with oversight and coordination of the implementation of the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) within the West Virginia State Government Executive Branch. HIPAA standardizes electronic health care transactions and establishes a federal floor of patient protections, ensuring that protected health information remains confidential and secure. Health plans, health care providers and clearinghouses<sup>1</sup> are covered by HIPAA.

A report on these activities will be provided under separate cover.

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<sup>1</sup> A clearinghouse is an entity that processes or facilitates the processing of nonstandard health information into standard formats or vice versa.

## Rural Health Systems Program (RHSP)

W. Va. Code § 16-2D-5

The Authority and the Bureau for Public Health's Office of Community and Rural Health Services (OCHRS) are responsible for jointly administering the West Virginia Rural Health Systems Program. The program was developed to assist financially vulnerable health care facilities located in underserved areas and to provide funding for collaborative programs with nearby facilities. The RHSP grant funding by program year is shown below.

<b>Rural Health Systems Program Grants Funded</b>	
<b>Grant Year</b>	<b>RHSP Grants Funded</b>
1995-96 Fiscal Year	\$ 783,000
1996-97 Fiscal Year	\$674,000
1997-98 Fiscal Year	\$1,365,000
1998-99 Fiscal Year	\$1,374,000
1999-00 Fiscal Year	\$746,370
2000-01 Fiscal Year	\$501,100
2001-02 Fiscal Year	\$574,659

## Electronic Storage and Availability of Documents

In 2002, the Authority transferred a significant number of its public documents to a digital, web-searchable format including CON files and a majority of Financial Disclosure files. In 2003, the remainder of Financial Disclosure files and Rate Orders will be available. This action will improve customer service and facilitate more efficient internal operations by making public information records available on-line. The electronic stored documents, including 2000 financial disclosures, will be deployed and web accessible by the end of January 2003 on the Authority's website [www.hcawv.org](http://www.hcawv.org).

### III. Financial Overview of Hospitals

The Authority is charged with collecting and reporting information regarding the financial viability of hospitals under the Health Care Financial Disclosure Act. The information in this report is a summary of this primarily self-reported data.

#### All Hospitals

During FY 2001, West Virginia was served by 63 hospitals in 41 counties. These hospitals discharged over 301,000 patients, a 3.2% increase over the prior year and provided over 5.07 million outpatient encounters, a 6% increase over FY 2000. Services provided included general acute care, psychiatric, rehabilitation and long term care.

From FY 2000 to FY 2001, Net Income as a percentage of Net Patient Revenue (NPR) increased 50% from 1.57% to 2.9%. From FY 2000, Net Patient Revenue increased 9.17% while expenses increased 7.25%.

Hospital payer mix, the percentage of patients covered by different types of insurances, remained stable over the past three years.

Facility occupancy, or the percentage of licensed beds that are occupied on average, increased marginally from 51% to 53.4%. The number of licensed beds decreased from 10,123 to 9,909.

Hospitals continue to be a significant force in the State's economy generating payroll of \$1.5 billion up from \$1.4 billion in FY 2000 and 35,344 full-time equivalents (FTE's) up from 34,734 in FY 2000. An average employee's compensation, including benefits, is \$43,500, an increase of 6% over the prior year's \$41,022.

Uncompensated care is the amount of money hospitals are unable to collect from those individuals who are either indigent (charity care), or refuse to pay (bad debt). As a percent of Gross Patient Revenue (GPR), uncompensated care in FY 2001 was essentially the same as FY 2000 at 6.52%. Charity care decreased slightly in FY 2001 to 2.5% down from 2.7% in FY 2000 while bad debt remained stable at 4.02%. Levels of bad debt and charity care vary widely between facilities.

Several facilities changed ownership or control during 2002. St Luke's Hospital was sold to Princeton Community Hospital on July 1, 2002, becoming a not-for-profit facility. Logan General was removed from bankruptcy by its sale to LifePoint Hospitals, a for-profit chain primarily owning facilities in the southern US, on November 30, 2002. Plateau Medical Center was sold to Community Health Systems, a for-profit, July 1, 2002 by Charleston Area Medical Center. Jackson General made several attempts to sell its facility, but has determined to discontinue sale initiatives at this time. Man Area Healthcare, Inc. was formed in 2002 to open a critical access hospital in the community. Select Specialty, a long-term acute care hospital, opened a facility within the campus of Charleston Area Medical Center in late December 2001. *A Long Term Acute Care Hospital (LTACH) is an acute care hospital that provides care for patients who have been in an intensive care or*

*short-term acute care setting and who require an extended length of stay (greater than twenty-five days). LTACHs are often referred to as a "hospital within a hospital". Due to the short period of time the facility operated in 2001, we have not included it in this report.*

## **Acute Care Hospitals**

### **Financial Status**

In a reversal of a downward trend, net income for acute care hospitals increased during FY 2001. Measured as a percentage of Net Patient Revenue (NPR), net income was 2.8% up from 1.9% in FY 2000 but down from 3.1% in FY 1999. NPR increased 8.9 %, at a rate greater than expense, in FY 2001 up from 2.9% in FY 2000. Medicare reimbursement revisions from the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act (BIPA) of 2000 and Balance Budget Refinement Act (BBRA) of 1999 were a material factor for the improved margins. Medicare represents 47% of acute care hospital revenue. For some rural facilities, Medicare represents up to 70% of the hospital revenue.

In FY 2001, twelve (12), or 25%, of acute care hospitals experienced a loss on net income. The losses ranged from 33.3% to 1.1%. The greatest loss was experienced by Plateau Hospital. The completed sale of the facility is expected to mediate the financial solvency issue for the hospital.

In FY 2001, twelve (12) hospitals had margins over 5%. The highest margin was obtained by Williamson Memorial at 13.9%.

Acute care hospitals as a group continued to experience losses on patient services, -1.77% in FY 2001, an improvement over -3.5% in FY 2000. Twenty-four (24) facilities lost money on patient services.

The losses on patient services were offset by gains in other operating revenue such as cafeteria, wellness centers, laundry and non-operating revenue such as donations, interest income or sale of assets. However gains in these areas were smaller than the year before at 4.6% in FY 2001, as opposed to 5.4% in FY 2000.

Acute care hospital expenses increased 7.1% in FY 2001, following a 4.5% increase in FY 2000. The majority of the cost increases were attributable to employee compensation and benefits, prescription drugs, medical surgical supplies, and increase in patient volume. Malpractice insurance increases were reported by facilities during the fourth quarter of 2001.

Employee wages and benefits account for 51% of acute care hospitals' total expenses. Wages and benefits increased 6% in FY 2001. Hospitals report this increase is due to inflationary adjustments, market adjustment increases to attract and retain staffing, and the addition of staff necessary to support the increased patient volume. Rate applications indicated shortages in certain positions including, nurses and pharmacists. Hospital benefit costs, particularly health insurance, have increased above the rate of inflation.

Uncompensated care percentage remained fairly constant at 5.6% in FY 2001.

The financial outlook of general acute care hospitals is uncertain. Although a positive net income growth is reported in FY 2001, with increased economic volatility, the number of uninsured, and third party payment policy updates, the acute care hospital sector is challenged to adapt to an evolving system. A number of West Virginia hospitals do not have the financial reserves or the flexibility to sustain a continued downturn.

## **Critical Access Hospitals (CAH)**

### **Financial Status**

In FY 2001, CAHs experienced an improvement in financial performance, but as a group were still in a net loss position. CAHs lost 0.7% in FY 2001 as compared to 5.8% and 4.32% in FY 2000 and 1999, respectively. The improvement was a result of net patient revenue increasing (14.01%) at a rate greater than expense (6.92%). Medicare reimbursement revisions from BIPA and the BBRA were a factor for the improved margins. CAHs continued to experience losses on patient services, however. The losses were offset by gains in other operating and non-operating revenue.

Operating expenses increased due to employee compensation, drugs, supply and volume. Malpractice insurance increases were reported by CAHs during the fourth quarter of 2001. CAHs are experiencing the same pressures as general acute care facilities to address a manpower shortage while maintaining cost controls. Several innovative facilities instituted educational and tuition reimbursement programs to address the shortages.

Total discharges from CAH facilities increased 2.69% during FY 2001.

Medicare has designated additional West Virginia facilities as CAHs. Hampshire Memorial became a CAH effective July 1, 2002 and Preston Memorial on January 1, 2003.

## **Psychiatric Hospitals**

### **Financial Performance**

Four free-standing psychiatric hospitals operate in West Virginia. These hospitals earned \$151,455 in FY 2001. This was an improvement from the losses of \$5.1 and \$9.3 million in FY 2000 and FY 1999, respectively. Free-standing psychiatric hospital expenses increased 7.49% over the prior year; a consistent trend with other facilities. Total discharges increased 3.24% from FY 2000. Private, not-for-profit and for-profit, facilities had net income of \$475,724. Highland Hospital had negative margins on both patient services and net income, while River Park Hospital reported positive margins on both. Mildred Mitchell-Bateman and William R. Sharpe hospitals are State Facilities and therefore have a very high percentage of uncompensated care. In FY 2001, the State facilities lost \$324,269, an improvement from the FY 2000 loss of \$3,803,308.

## **Rehabilitation**

### **Financial Status**

West Virginia has five (5) rehabilitation hospitals, including one State-supported facility, West Virginia Rehabilitation Center, and four for-profit facilities.

In FY 2001, the for-profit facilities reported \$8.5 million in net income, a 15.54 % return on net patient revenue, and an increase over FY 2000 profit of \$3.1 million. In FY 2001, West Virginia Rehabilitation Center reported a net income of \$224,597, a 12.3% return on net patient revenue, and an increase over the FY 2000 loss of \$185,883.

## **IV. Overview of Other Facilities**

### **Home Health**

West Virginia is served statewide by more than 70 home health agencies including several agencies in bordering states.

Medicare introduced the Home Health Prospective Payment system in October 2000 after three years of an Interim Prospective Payment System designed to curb the fast growth in this formerly cost-based reimbursement sector. The resulting reimbursement reductions led to many closures and consolidations in this sector. This trend continued with the number of agencies shrinking from 89 in the 1999 survey to 76 in 2001.

Of those remaining in operation, more are reporting profitability or smaller losses with 43 agencies (60%) responding to the survey reporting profits in 2001. This is up from 32% in 1999. Overall profit margins are improving from a loss of 24% in 1999 to a loss of 6% in 2001.

### **Behavioral Health**

Financial information available from sixty-eight (68) facilities showed declining total margins in FY 2001. The average of the individual total margins was -0.6% for FY 2001 which includes a -119% margin (due primarily to a \$718 thousand unrealized loss on investments) reported by Easter Seal Rehabilitation Center. Margins of other facilities, excluding this facility, averaged 1.3%. Average total margins are down from 3.1% a year earlier and 1.4% in FY 1999. Total Excess Revenues, as reported, declined to \$4.1 Million in FY 2001 from \$7.26 Million in 2000 for these facilities. However, some facility reports are not available and others have been intermittently reported. The number of centers reporting profits declined from 41 in FY 1999 to 36 in FY 2001.

- ! Shawnee Hills filed for bankruptcy despite turn-around efforts and client services were transferred to other providers.
- ! Eastern Panhandle Training Center announced plans for filing bankruptcy in March 2002 after reporting a negative 2.9% margin in FY 2000, down from a 1% margin in FY 1999.

### **Nursing Homes**

West Virginia is currently served by 102 free-standing nursing homes. These facilities provide medical services at a skilled and intermediate level to patients who no longer require acute care. During FY 2001, one facility closed, Point Pleasant Center, and Heritage Center reduced their number of beds.

A majority, 82%, of nursing homes are for-profit facilities. These include facilities corporately owned by Genesis Eldercare, AMFM, Mariner, and Sunbridge. Genesis Eldercare, with 22% of the facilities statewide, emerged from bankruptcy in October 2001.

In FY 2001, facilities incurred a net loss of 0.1% as compared to gains of 3.2% in FY 2000 and 1.96% in FY 1999. Net patient revenue increased 5.7% in FY 2001. Expense increases of 7.7%, which included restructuring and bankruptcy costs, as well as increases in employee compensation and insurance contributed to the loss. Of the 102 facilities, 62 were profitable.

Nursing home admissions increased 1.7% while patient days remained stable at 3.3 million. Medicaid days reported were 2.5 million, an increase of 1% in FY 2001.

### **Hospice**

West Virginia is served by 21 hospice organizations. In the aggregate, hospice financial margins were breakeven in 2001 down from 1% in the prior year. Ten organizations (52%) operated at a loss for the year.