

## California Hospital Trends Glossary

**Adjusted Day** – An adjustment to the number of patient days to recognize outpatient utilization.

*Adjusted Day Formula: Patient Days x (Total Gross Patient Revenue / Gross Inpatient Revenue)*

**Adjusted Occupied Bed** – An adjustment to the number of occupied beds to recognize outpatient utilization.

*Occupied Bed Formula: Patient Days / number of days in the report period*

*Adjusted Occupied Bed Formula: Adjusted Days / number of days in the report period*

**Average Length of Stay** - The approximate average period of hospitalization, inclusive of long-term care (LTC) services, for inpatients formally admitted during the report period. The average is calculated by dividing total patient days by the number of discharges. Nursery days and discharges are excluded from this calculation.

**Employee Classification** - A classification of employees based on similar functions, skill levels, area of responsibilities, complexity, and educational requirements. The following employee classifications are used to present labor productivity data: management and supervision, technical and specialist, registered nurses, licensed vocational nurses, aides and orderlies, clerical and other administrative, environmental and food services, and all other employee classifications.

**Net Income** (A.K.A. “Bottom Line”) - the excess of revenue over expenses. Net Income is the amount of operating income plus non-operating revenue less non-operating expenses, provision for income taxes, and extraordinary items. Examples of non-operating revenue include investment income, unrestricted contributions, medical office building revenue, gift shop revenue, and governmental appropriations (public hospitals only). Non-operating expenses include costs incurred related to producing non-operating revenue, such as medical office building expenses, gift shop expenses, and loss on sale of hospital property.

**Operating Income** – Operating Income, also called “net from operations”, is Total Operating Revenue less Total Operating Expenses (see definitions of each for more detail). This is income resulting from providing patient care in the hospital during the reporting period, exclusive of non-operating revenue and expenses.

**Operating Margin** - Operating margin is the most commonly used financial ratio to measure a hospital’s financial performance. This ratio measures the amount of operating income per dollar of total operating revenue. If total operating revenue exceeds total operating expenses, the hospital is operating at a profit and will have a positive operating margin; whereas, if total operating revenue is less than total operating expenses, the hospital is operating at a loss and will have a negative operating margin.

*Operating Margin Formula: (Total Operating Revenue – Total Operating Expenses) / Total Operating Revenue*

**Outpatient Visits** - A “visit” is an appearance of an outpatient in the hospital for ambulatory services or the appearance of a private referred outpatient in the hospital for ancillary services. In both instances, the patient is typically treated and released the same day, and is not formally admitted as an inpatient, even though occasional overnight stays may occur. Included are outpatient emergency room visits,

outpatient clinic visits, referred (ancillary service) visits, home health care visits, and day care days, where the outpatient is treated and released the same day. Also included are outpatient chemical dependency visits, hospice outpatient visits, and adult day health care visits. Outpatient visits are reported by four payer categories (see Payer Categories for more detail).

**Paid FTEs** - calculated by dividing the Total Paid Hours for all hospital employees by 2,080. One FTE equals 2,080 hours. Nursing Registry FTEs are included. Total Paid hours include all hours paid to hospital employees. This would include all hours for paid time off such as vacation and sick leave.

**Payer Categories:**

- **Medicare** – Includes patients who are covered by a managed care health plan funded by Medicare or Fee-for-Service (FFS) patients covered under the Social Security Amendments of 1965, who are primarily the aged and needy.
- **Medi-Cal** - Includes patients covered by a managed care health plan funded by Medi-Cal or FFS patients who are qualified as needy under state laws.
- **Other Third Parties** - includes all other forms of health coverage including managed care plans. Examples include Short-Doyle, CHAMPUS, California Children's Services, indemnity plans, Fee-For-Service plans, and Workers' Compensation. Also includes patients covered by managed care plans other than those funded by Medicare, Medi-Cal, or a county.
- **Indigent & Self Pay** - Includes indigent patients who are being provided charity care by the hospital, U.C. teaching hospital patients who are provided care with Support for Clinical Teaching funds, indigent patients who are covered under Welfare and Institutions Code Section 17000 for both FFS patients and those patients covered under a managed care health plan funded by a county. Also includes all patients who do not belong in any of the other payer categories, such as those designated as self-pay.

**Productive FTEs** - calculated by dividing the Total Productive Hours for all hospital employees by 2,080. One FTE equals 2,080 hours. Nursing Registry FTEs are included. Total Productive Hours includes total hours actually worked, including paid time spent attending meetings and educational activities at or away from the hospital. Total Productive Hours includes operating and non-operating cost centers and also includes hours for workers who do not receive a paycheck from the hospital's payroll system, such as registry nursing personnel and other temporary personnel. Total Productive Hours does not include non-productive hours or "on-call" hours.

**Total Margin** - This ratio measures the amount of net income per dollar of total operating revenue. The key difference from the operating margin is that the total margin factors in non-operating revenues and expenses, the provision for income taxes, and any extraordinary items. Total margin may differ significantly from the operating margin if substantial amounts of non-operating revenue or expenses are reported.

*Total Margin Formula: Net Income / Total Operating Revenue*

**Total Operating Expenses** - includes all expenses associated with operating the hospital, such as salaries, employee benefits, purchased services, supplies, professional fees, depreciation, rentals, interest, and insurance. It does not include bad debts, income taxes, non-operating expenses, or extraordinary items.

**Total Operating Revenue** - the sum of net revenue and other operating revenue, where:

- **Net Revenue** is the amount received or expected to be received from third-party payers (insurers) and patients for hospital services provided. Net revenue includes the payments received for routine nursing care, emergency services, surgery services, lab tests, etc.
- **Other Operating Revenue** is the amount received from non-patients for services related to hospital operations. This includes items such as cafeteria sales, refunds on purchases, vending machine commissions, parking lot revenue, etc. Since other operating revenue typically comprises between 2% to 4% of a hospital's total operating revenue, it often determines if a hospital's operating income is a profit (positive amount) or loss (negative amount).

**Type of Control** - the type of ownership and/or legal organization of a hospital licensee. The following five types of control are reported:

- **District** - includes District hospitals
- **City/County** - includes hospitals operated by a County, County/City or City
- **Investor** - includes hospitals operated by an Investor-Individual, Investor-Partnership, or Investor-Corporation
- **Non-Profit** - includes hospitals operated by a Church, Non-Profit Corporation, or Non-Profit Other
- **State** - includes hospitals operated by the State of California

**Uncompensated Care Charges** - the sum of County Indigent Program Contractual Adjustments, Bad Debt, and Charity related to services provided to uninsured and/or indigent patients. County Indigent Program Contractual Adjustments are the difference between billings at full established rates and amounts received or receivable from the County under a formal contract agreement. Bad Debt is the amount of accounts receivable which are determined to be uncollectible due to the patient's unwillingness to pay. This amount is charged as a credit loss against gross patient revenue. Bad debts are classified as deductions from revenue, and not included in operating expenses. Charity is the difference between gross patient revenue (based on full established charges) for services rendered to patients who are unable to pay for all or part of the services provided, and the amount paid by or on behalf of the patient. Includes charity care provided by non-county hospitals to indigent patients whose care is not the responsibility of the county.