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El Paso County Hospital District R.E. Thomason General Hospital Revenue Base 1996-2000

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El Paso County Hospital District
R.E. Thomason General Hospital
Revenue Base 1996-2000

A. Introduction: the basic structure of the El Paso Hospital District.

The El Paso County Hospital District, a component unit of El Paso County, operates the R.E. Thomason General Hospital (Thomason). The County Commissioner's Court appoints the Thomason governing board and approves its budget, tax rate and the issuance of bonded debt. Thomason has the legal responsibility to provide medical and hospital care to all County residents regardless of ability to pay.

Thomason also is the teaching hospital for the Texas Tech University Health Sciences Center. The hospital contracts with Texas Tech for services provided by faculty and resident-trainee physicians in its facility.

The El Paso County Hospital District is the sole corporate member of El Paso First Health Plan, Inc. (the Plan), El Paso First Health Care Network, Inc. (El Paso First), and Thomason Cares, Inc. All three entities are nonprofit corporations certified as 5.01 (a) nonprofit health organizations under the Medical Practices Act of Texas. The Plan is a health maintenance organization (HMO) that is just becoming operational in fiscal year 2001. It recently received a contract with Medicaid for managed care. Ninety percent of El Paso County CHIPs (Child Health Insurance Program) enrollment is with El Paso First and will be transferred to the Plan. El Paso First is a network of local physicians and heath care providers organized to provide managed care services; it will be the provider group for the Plan. Thomason Cares is a physician group practice of primary care physicians that staffs Thomason's out-patient clinics in Ysleta, Fabens and the dental clinic at the hospital. The group practice initiated its operations in August 1999 and Thomason contracts with the group to staff its clinics.[1]

Legal services for the hospital are provided by the County of El Paso and billed to Thomason as a professional service. The lawyers providing this service are direct employees of the County and they are supervised by the County Attorney. R.E. Thomason is one of 91 public hospital districts in the State of Texas. With the closing of the public hospital in Del Rio, it is the only public hospital district in a Texas-Mexico border county.

B. Revenues and Expenses for the period 1996-2000.

In two of the past five fiscal years, 1999 and 2000, expenses for the Hospital's operations have exceeded revenues. Total revenues for Thomason have fluctuated in the last five fiscal years from $164.4 million in 1997 to $181.3 million in FY 2000 (Table T-1). Revenues have increased 8.9 percent from 1996 to 2000. At the same time, total expenses increased from $145.1 million in 1996 to $201.6 million, a 39.1 percent change. Income from operations exceeded expenses in 1996, 1997 and 1998. The loss from operations totaled $4.5 million in 1999 and $20.6 million in 2000. Chart T-1 displays the relationship between revenues, expenses and income or loss from operations for the past five years. The prudent investment of gains (profits) from prior years provided the cash to cover the "excess expenses," after non-operating

[1] *El Paso County Hospital District Operating R.E. Thomason General Hospital, A Component Unit of El Paso County: Combined Financial Statements and Supplemental Schedules*, September 30, 2000 and 1999, p. 9.

Table T-1

Revenues and Expenses 1996-2000 - R.E. Thomason General Hospital

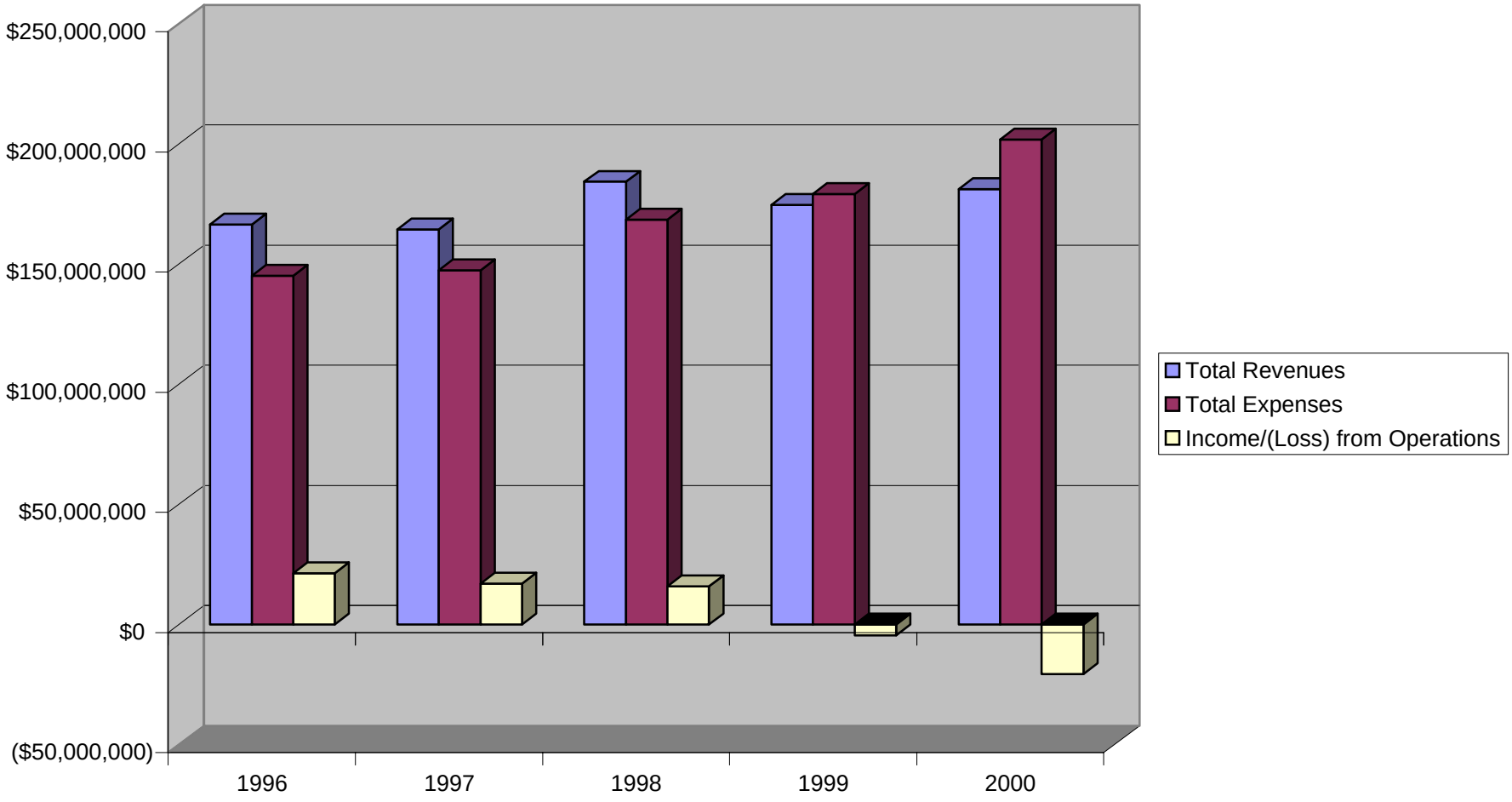
	1996	1997	1998	1999	2000	change	% change
Revenues							
Net patient service revenue	$103,047,000	$100,543,000	$121,226,000	$116,367,000	$129,410,000	$26,363,000	25.6%
Disproportionate share revenue	$26,777,000	$25,949,000	$25,214,000	$21,118,000	$12,347,000	($14,430,000)	-53.9%
Property Taxes- maintenance & operatio	$26,256,000	$28,848,000	$29,210,000	$29,246,000	$30,941,000	$4,685,000	17.8%
Property taxes - debt service levy	$5,044,000	$3,915,000	$3,615,000	$3,007,000	$2,925,000	($2,119,000)	-42.0%
Cafeteria	$1,065,000	$1,151,000	$1,219,000	$1,184,000	$1,426,000	$361,000	33.9%
Transferred from Specific Purposes Fun	$3,783,000	$3,338,000	$3,161,000	$2,995,000	$3,203,000	($580,000)	-15.3%
Interest/Investment return	$489,000	$617,000	$619,000	$690,000	$1,017,000	$528,000	108.0%
Total Revenues	$166,461,000	$164,361,000	$184,264,000	$174,607,000	$181,269,000	$14,808,000	8.9%
Total Expenses	$145,097,000	$147,343,000	$168,497,000	$179,111,000	$201,850,000	$56,753,000	39.1%
Income/(Loss) from operations	$21,364,000	$17,018,000	$15,767,000	($4,504,000)	($20,581,000)	($41,945,000)	-196.3%
Non-operating Gains, net[2]	$4,269,000	$6,080,000	$11,216,000	$13,174,000	$8,809,000	$4,540,000	106.3%
Extraordinary loss			($4,281,000)				
Excess of Revenues over Expenses	$25,633,000	$23,098,000	$22,702,000	$8,670,000	($11,772,000)	($37,405,000)	-145.9%

Notes:[1]Specific Purpose Funds include program revenues in the Traffic Safety, Family Planning and Poison Center funds.

[2] In 1999 and 2000, nonoperating gains included $10,448,000 and $3,309,000 respectively from a tobacco industry settlement with the State of Texas to offset indigent health care costs of local governments.

Source: Combined Statements of Operations of the General Fund, years ending Sept. 30, 1996-2000.

Chart T-1
R.E. Thomason General Hospital Revenues, Expenses and Income/Loss from Operations



Source: Combined Statements of Operations of the General Fund, 1996-2000

gains are factored in.[2] In other words, the losses from operations were covered from earnings and sale of assets in the Hospital's accumulated investment portfolio.

As Table T-1a demonstrates, Thomason's investment portfolio increased at a healthy rate in the fiscal years where there were sizeable gains from operations (1996 to 1998) and also in 1999 when Non-operating Gains of $13.2 million covered the operating loss of $4.5 million, resulting in an overall positive balance of $8.7 million (see Table T-1). As the table below shows, in fiscal year 2000 there was a decrease of $13.6 million in the value of the Hospital's investments from $122.6 million in 1999 to $109.0 million in 2000. The value of the investment portfolio grew significantly from 1996 to 1998 and is at a level that is adequate to cover deficits in the $20.6 million range for five to six years. It is also more than adequate to cover the operating loss projected for the coming fiscal year of $10 million as discussed below. Proceeds of the investment portfolio, however, not only cover losses from operations; they also are applied to some capital improvements. Therefore, the long-term implications of covering operating losses from the investment portfolio would also be negative from the perspective of financing major capital improvement projects from that source.

Table T-1a

Income/(Loss) from Operations & Value of Investments (fiscal year end date)
R.E. Thomason General Hospital 1996-2000
(in thousands of dollars)

	1996	1997	1998	1999	2000
Income/(Loss) from Operations	$21,364	$17,018	$15,767	($4,504)	($20,581)
Value of Investments 1)	$73,418	$97,513	$120,309	$122,629	$109,029

Note: 1) Total assets whose use is limited, including cash deposits.
Source: Notes to Combined Financial Statements 1996-2000, footnotes on Investments.

The Hospital projects a loss from operations in fiscal year 2001 in the range of $10 million and a break even point, operational income equal to expenses, by the end of fiscal year 2002. This outcome is projected as the result of: a) the improved reimbursement, billing and accounts receivable processes which have already been instituted: and, b) the operational assessment of consultants which has led to cost cutting. A third source of revenue growth is expected to come from increased competition with other hospitals with the aim of enlarging the funded patient population. Thomason has examined the payor mix of its patients and is adopting a competitive attitude towards finding funded patients.[3]

1. Sources of operating revenue:

The largest revenue source for Thomason is net patient service revenue, the income realized from the billing for all medical services provided by the institution. Net patient service revenue grew from $103 million to $129.4 million in the last five years (Table T-1), a 25.6 percent increase. The portion of revenues from this source has increased from 61.9 percent of total revenue in 1996 to 71.4 percent in 2000 as shown in Table T-2 and Chart T-2.

Second in importance as a revenue source is the El Paso County Hospital District property tax levy for maintenance and operations (M & O) of the hospital. From $26.2 million to $30.9 million was realized in the M & O property tax levy in the past five years, between 15.8 and 17.6 percent of total revenues.

[2] Non-operating gains (losses) include returns on investments for the fiscal year and, for the years 1999 and 2000, funds from a tobacco industry settlement with the State of Texas.
[3] Interview with Pauline A. Motts, CPA, Vice President for Financial Services, Thomason Hospital, June 28, 2001.

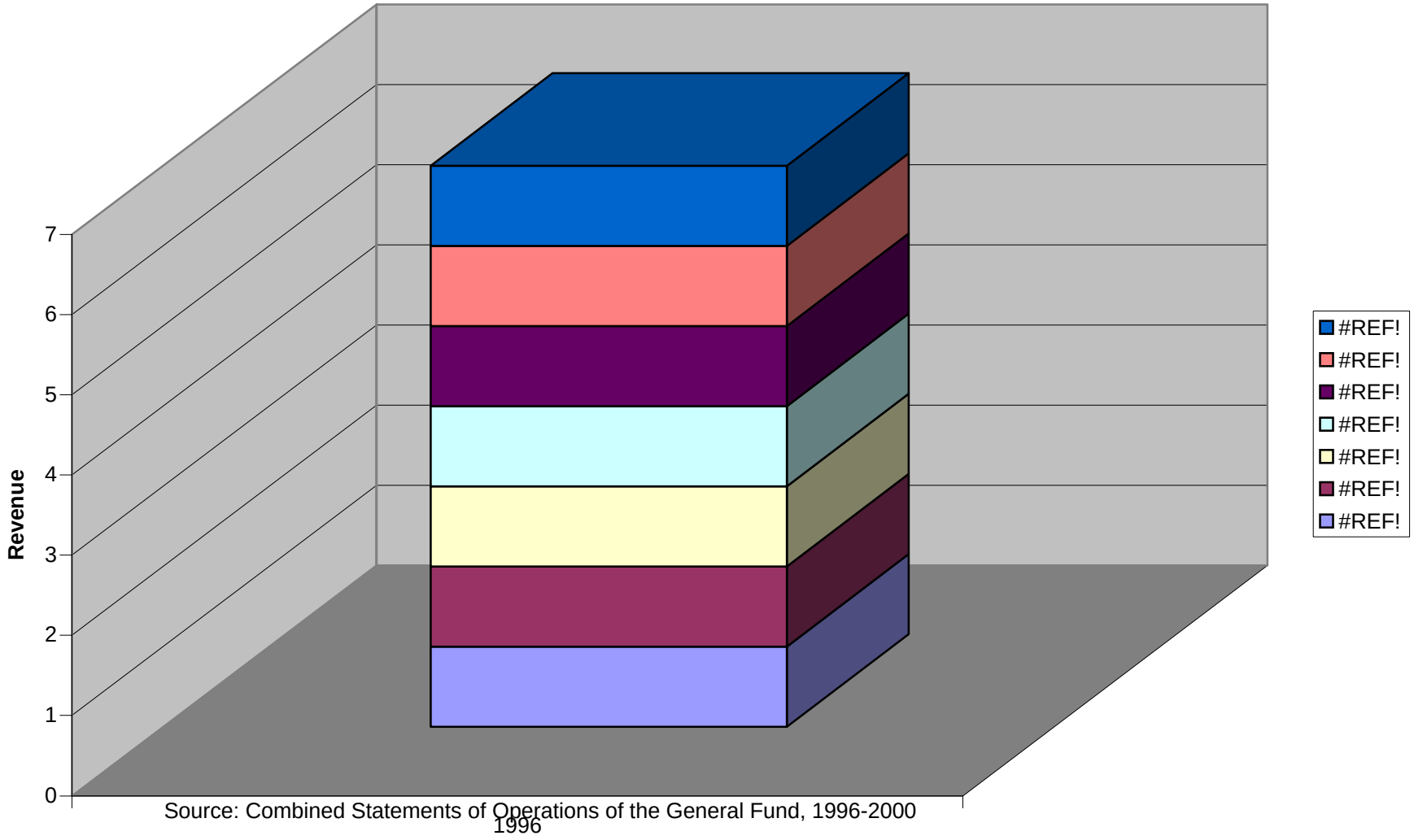
Table T-2

Percent of Total Revenues 1996-2000 - R.E. Thomason General Hospital

	% of Total 1996	% of Total 1997	% of Total 1998	% of Total 1999	%of Total 2000
Revenues					
Net patient service revenue	61.9%	61.2%	65.8%	66.6%	71.4%
Disproportionate share revenue	16.1%	15.8%	13.7%	12.1%	6.8%
Property Taxes- maintenance & operations	15.8%	17.6%	15.9%	16.7%	17.1%
Property taxes - debt service levy	3.0%	2.4%	2.0%	1.7%	1.6%
Cafeteria	0.6%	0.7%	0.7%	0.7%	0.8%
Transferred from Specific Purposes Funds	2.3%	2.0%	1.7%	1.7%	1.8%
Interest/Investment return	0.3%	0.4%	0.3%	0.4%	0.6%
Total Revenues	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Combined Statements of Operations of the General Fund, years ending Sept. 30, 1996-2000.

Chart T-2
R.E. Thomason General Hospital Revenues, 1996-2000



Source: Combined Statements of Operations of the General Fund, 1996-2000

Third in importance and is a declining source of revenue is disproportionate share revenue. The Medicaid disproportionate share program is a federal program initiated in 1981 that provides funds for indigent medical care in hospitals that serve a "disproportionate share" of low-income patients. Thomason received $26.8 million from this source in 1996, more than from the property tax levy, and $12.3 million in 2000. As a share of total revenues, it has declined from 16.1 percent of revenues in 1996 to 6.8 percent in 2000 (Table T-2).

Initially a very small program, the federal disproportionate share program grew rapidly in the 1980s with the increases in federal Medicaid spending and amounted to $1.5 billion in 1992. Since 1993 Congress has stopped the growth in the program and has capped expenditures via a number of budget reconciliation bills. Disproportionate share spending has declined gradually since that time. Currently there is a two-year freeze on further reductions at federal fiscal year 2000 levels. The program is likely to continue to be funded because of the significant number of persons in the United States that have no health insurance coverage. It is a program that essentially addresses the needs of the uninsured; and without further national health insurance reform hospitals associations throughout the United States will be lobbying for continued increases in funding. Medicaid disproportionate share is a match program, currently 62 percent federal dollars and 38 percent state match. *The Texas Legislature has been unwilling to appropriate funds to match the federal dollars; this match would total approximately $325 million this year*.

The state disproportionate share match funds must come from governmental bodies; therefore, the nine largest public hospital districts in Texas (in size of county population), including Thomason, generate the match based on a formula negotiated among themselves.[4] The match is generated via an intergovernmental transfer (IGT) from each of the nine hospitals to the State. On a monthly basis the match dollars are "swept" from the hospital accounts and, within a few days, the federal disproportionate share program funds are received. *The program continues to benefit the hospitals even though disproportionate share funding has declined and nine hospital districts contribute the match while 150 Texas hospitals benefit because they are eligible under the federal program guidelines. If the nine hospital districts did not contribute the match, the federal disproportionate share dollars would not be available to them as well as to the other hospitals*.[5]

Thomason and other Texas hospitals also receive smaller amounts of federal funds under a special Medicaid provision that covers emergency health care services for undocumented persons. Enacted as a part of the Balanced Budget Act of 1997, the federal government appropriated funds for emergency health services for undocumented persons, a total $25 million per year divided among the twelve states with the highest number of undocumented persons.[6] Nationally, California receives the largest share of the funds. The other border states receiving funds are Texas and Arizona. Undocumented persons, who present as a medical emergency at a hospital, including labor and delivery, are qualified under Medicaid at the time of intake, and the hospital is reimbursed for the care. El Paso County hospitals processed 6,024 TP 30 applications in 1999, of which 4,160 were approved. Chart T-3 shows that of a total of $17.1 million billed by El Paso County under this program, $7.8 million in claims were paid and $9.3 million in un-reimbursed services were provided. The legislative authorization for this special provision of Medicaid coverage ends in 2001, unless Congress reauthorizes it.

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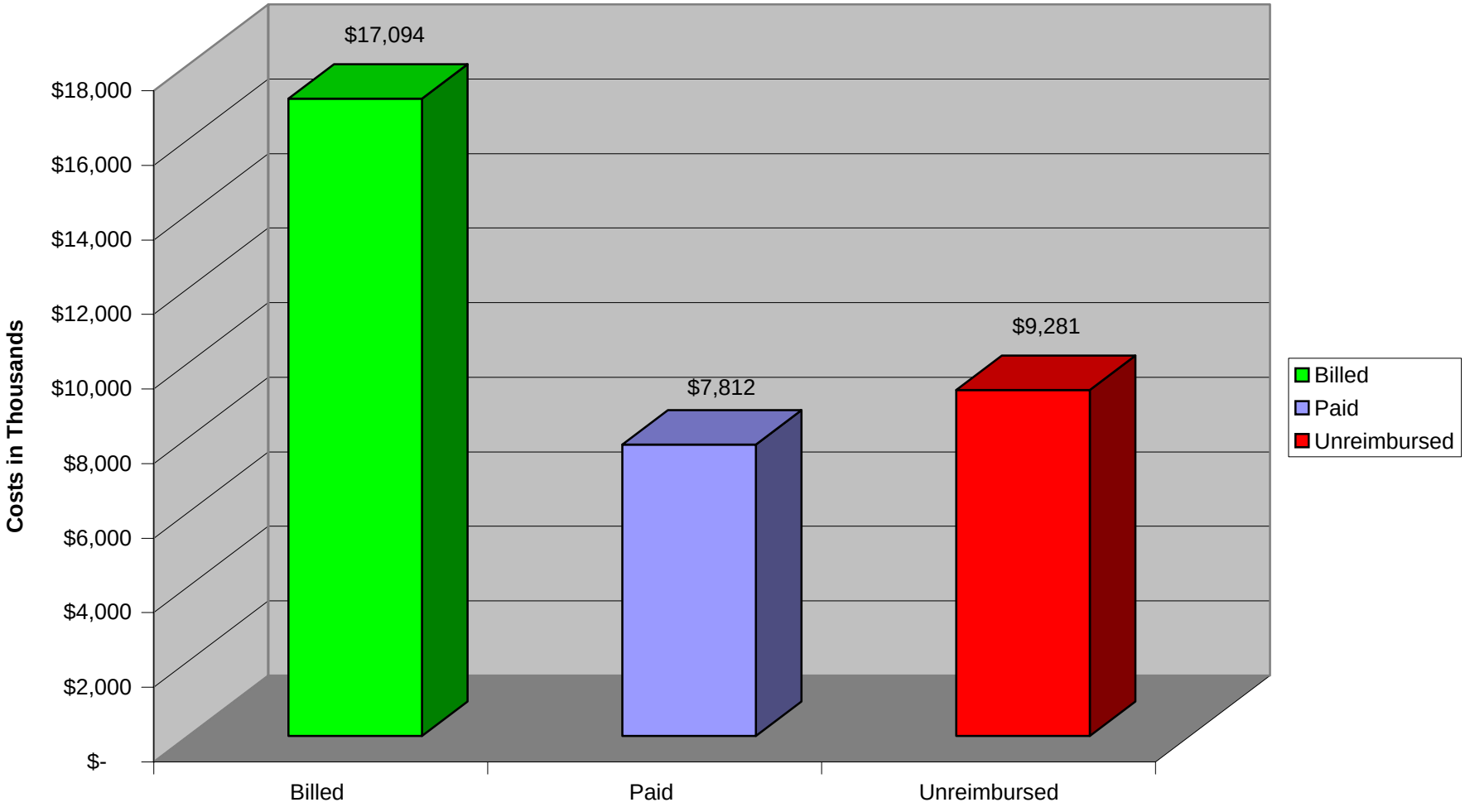
[4] The nine hospitals that contribute the disproportionate share match are the public hospital districts in Dallas, El Paso, Tarrant (Fort Worth), Nueces (Corpus Christi), Hector (Odessa), Bexar (San Antonio), Harris (Houston) and Lubbock counties and the City-County Hospital in Austin.

[5] Background and history on the disproportionate share program provided by Rick Peters, Data Health Partners, and, until September 1999, the bureau chief for the Bureau of Reimbursement and Analysis, Texas State Department of Health, June 27, 2001.

[6] The Immigration and Naturalization Service distribute funds in proportion to the number of undocumented persons in each state.

Chart T-3
TP30 Medicaid Reimbursements El Paso County, 1999



Source: Texas Department of Health

Thus, net patient service revenue, property taxes for hospital maintenance and operations and the disproportionate share revenues together produce the bulk of Thomason's operating revenue, from 94 to 95 percent of revenue. The property tax debt service levy, hospital cafeteria, specific purpose funds and interest/investment return are minor sources of revenue by comparison. The property tax debt service levy will be discussed under the section on property taxes below.

Specific purpose funds include three programs whose operations are financed largely by federal or state grant funds. These programs are the two Traffic Safety Programs established in 1999 (Safe Communities-Traffic Injury Prevention and the Child Passenger Seat Loaner Program), the Family Planning Services Department, established in 1971, and the Poison Center, set up in 1995. The first two programs receive grants from state agencies that act as pass-through agencies for federal grant funds. The Poison Center receives funding from the Texas Department of Health to maintain a twenty-four hour poison information hotline. The combined total for these grant programs, including patient fees and reimbursements for family planning services, has fluctuated between $3 million and $3.8 million in the past five years, an amount that is no more than 2.3 percent of total revenues.

2. Patient Service Revenue:

Patient service revenue at the hospital is the total realized in payments from patients, third-party payors and others for medical services rendered. Amounts realized under Medicare and Medicaid are generally less than established by hospital billing rates; this is also true for amounts realized under payment agreements with certain commercial insurance carriers. The difference between the hospital's rates and the negotiated reimbursement rates is referred to as contractual adjustments. Contractual adjustments are the norm for all hospitals in this era of managed care. Gross patient service revenue is therefore adjusted for charity care and these contractual adjustments shown in Table T-3.

Thomason has a charity care policy that provides for a discount on a patient's bill from 10 to 100 percent based on federal poverty levels. Hospital intake workers first try to qualify patients for medical assistance (Medicaid, CHIPs, etc.). A financial assessment is then conducted to determine the discount for which a patient may be eligible. The portion of a charity account that is not the responsibility of the patient is immediately written off as charity care. The remaining portion is a self-pay account and payment arrangements are worked out with the patient. Amounts not paid in a set period of time are written off as bad debts.

Gross patient service revenue has grown 36.2 percent from 1996 to 2000, from $187.5 million to $255.5 million. The charity care write-off has grown at a slower rate in this period, 21.9 percent, from $42.9 million to $52.3 million. The county pays a good portion of this charity care bill through the property tax levy for maintenance and operations. Contractual adjustments have seen the largest increases in this five-year period, 70.6 percent for Medicare/Medicaid and 122.8 percent for commercial insurance carriers, HMOs and preferred provider organizations. *Medicare/Medicaid contractual adjustments in 2000 amounted to $61.5 million and exceeded the charity care write-off for that year of $52.3 million*. The detail in Table T-3 on Uncompensated Care (based on gross charges) shows again that contractual adjustments is the fastest growing category of uncompensated care with a 77.6 percent change from 1996 to 2000, an increase from $41.5 million to $73.7 million. Charity care and provision for bad debts have increased 21.9 and 22.4 percent respectively from 1996 to 2000.

3. Property Tax Levy:

The property tax levy and the property tax rate for the El Paso County Hospital District are divided into two portions, the levy and rate for hospital maintenance and operations (M&O) and

Patient Service Revenue, R.E. Thomason General Hospital 1996-2000

	1996	1997	1998	1999	2000	Change	% Change
Gross patient service revenue	$187,501,000	$186,168,000	$218,872,000	$232,507,000	$255,455,000	$67,954,000	36.2%
Charity care	($42,928,000)	($45,944,000)	($42,915,000)	($48,787,000)	($52,309,000)	($9,381,000)	21.9%
Total Patient Service Revenue	**$144,573,000**	**$140,224,000**	**$175,957,000**	**$183,720,000**	**$203,146,000**	$58,573,000	40.5%
Less contractual adjustments:							
Medicare/Medicaid	($36,012,000)	($35,363,000)	($47,060,000)	($54,658,000)	($61,451,000)	($25,439,000)	70.6%
Other	($5,514,000)	($4,318,000)	($7,671,000)	($12,695,000)	($12,285,000)	($6,771,000)	122.8%
Net Patient Service Revenue	**$103,047,000**	**$100,543,000**	**$121,226,000**	**$116,367,000**	**$129,410,000**	$26,363,000	25.6%

Note: Property taxes for maintenance and operations for years 1999 & 2000 shown on Table 1.
Source: Footnote (4), Notes to Combined Financial Statements, 1996-2000.

Uncompensated Care (based on gross charges), R.E. Thomason General Hospital 1996-2000

	1996	1997	1998	1999	2000	Change	% Change
Contractual adjustments	$41,526,000	$39,681,000	$54,731,000	$67,353,000	$73,736,000	$32,210,000	77.6%
Charity	$42,928,000	$45,944,000	$42,915,000	$48,787,000	$52,309,000	$9,381,000	21.9%
Provision for bad debts	$39,111,000	$33,822,000	$43,639,000	$41,135,000	$47,875,000	$8,764,000	22.4%
Total Uncompensated Care	**$123,565,000**	**$119,447,000**	**$141,285,000**	**$157,275,000**	**$173,920,000**	$50,355,000	40.8%

Source: Footnote (4), Notes to Combined Financial Statements, 1996-2000.

those for debt service.[7] The total tax rate for Thomason has dropped in the last four fiscal years from $0.193747 per $100 of assessed value to $0.185468 per $100. More importantly, the M&O tax rate has remained steady for the past five years at $0.170147 or slightly less. The debt service rate decreased 30 percent from 1996/1997 to 2000/2001, from $0.0236 to $0.016524 per $100 of assessed value. *There has been no increase in the tax rate for thirteen years.* Collections have increased due to increases in assessed value of property.

The total tax levy has increased from $31.3 million in 1996 to $33.9 million in 2000, an 8.2 percent increase (Table T-4). The majority of the levy is for M&O and that levy has increased from $26.3 million to $30.9 million or 17.8 percent. The debt service levy has declined steadily from $5.0 million in 1996 to $2.9 million in 2000. In 1998 Thomason refinanced bonds to secure a lower interest rate (Series 1998 refunding bonds). This is the only debt outstanding at the moment. Future debt service requirements for bonds as of Sept. 30, 2000 total $37.5 million in principal and interest.[8]

There are, however, two major hospital projects underway for which future bond issues may be considered. A three-story expansion on the northwest side of the hospital is in progress for expanded ICU, pediatrics and ambulatory care services. This expansion is currently being funded with part of the proceeds from investments. A second project concerns the hospital's management information system (MIS). The core MIS system needs to be replaced and is projected to cost $28 million over five years for capital improvements and operations.[9]

C. Balance of payments ratios.

Tables T-5 and T-6 display ratios on the leveraging of medical services at Thomason and the proportion of charity care paid for by the local property tax levy and the federal disproportionate share program. The ratio of gross patient services revenue to the property tax levy shows the relationship between local property tax dollars and the total value of the medical services delivered at Thomason in the past five years. For every $1 of property tax collected for the hospital district, from $6 in 1996 to $7.54 in 2000 in medical services were delivered. The ratio of total hospital expenses to property tax levy has grown from a low of 4.50 in 1997 to 5.96 in 2000. *In effect total patient services revenue and total hospital expenses are growing faster than the property tax levy*. *The data on the property tax levy as a percent of total expenses, also in Table T-5, confirms that property tax dollars are covering a decreasing portion of hospital expenses*. The property tax levy amounted to 22 percent of total hospital expenses in 1996 and 1997 and has declined to 17 percent in 2000. This is a good trend as long as the purpose for which the hospital district was established, to provide medical and hospital care to all county residents regardless of ability to pay, is being met.

Table T-6 therefore examines the question of the portion of charity care costs covered by the local property tax levy and by federal disproportionate share revenue. This is a measure of local county support for care for the uninsured and indigent. The ratio of property tax levy to charity care shows the portion of every dollar of charity care that is paid for by the property tax levy. In effect the local property tax levy is covering a declining portion of the cost of charity care at Thomason. In 1996 the levy covered $0.73 of every dollar of charity care provided and only $0.65 in 2000.

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[7] Twenty of the 91 Texas hospital districts (22%) listed by the Texas Hospital Association have a property tax rate for interest and sinking fund (the amortization of hospital district bonds), as well as for maintenance and operations. The public hospital districts in Bexar and Harris counties have no tax rate for debt service. In the Bexar County Hospital District (University Health System), capital improvements are paid for from excess operating revenue and investment income.

[8] Note (8) to Combined Financial Statements, September 30, 2000 and 1999.

[9] Interview with Pauline A. Motts, CPA, Vice President for Financial Services, Thomason Hospital, June 28, 2001.

Table T-4

Property Tax Levy, R.E. Thomason General Hospital 1996-2000

	1996	1997	1998	1999	2000	change	% change
Property Taxes- maintenance & operations	$26,256,000	$28,848,000	$29,210,000	$29,246,000	$30,941,000	$4,685,000	17.8%
Property taxes - debt service levy	$5,044,000	$3,915,000	$3,615,000	$3,007,000	$2,925,000	($2,119,000)	-42.0%
Total Property Tax Levy	$31,300,000	$32,763,000	$32,825,000	$32,253,000	$33,866,000	$2,566,000	8.2%

Source: Combined Statements of Operations of the General Fund, years ending Sept. 30, 1996-2000.

Tax Rates: El Paso County Hospital District, R.E. Thomason General Hospital 1996/1997 to 2000/2001

(Tax rates expressed in dollars per $100 assessed value)

Fiscal Year	Total Tax Rate	Maintenance & Operations Tax Rate	Debt Service Tax Rate
1996/1997	0.193747	0.170147	0.023600
1997/1998	0.191304	0.170117	0.021187
1998/1999	0.185070	0.167721	0.017349
1999/2000	0.185070	0.168814	0.016256
2000/2001	0.185468	0.168944	0.016524

County of El Paso, County Tax Assessor-Collector

Table T-5
Ratios of Gross Patient Services Revenue & Total Expenses to the Property Tax Levy; & Property Tax Levy as Percent of Total Expenses: R.E. Thomason General Hospital 1996-2000

Year	Ratio of Gross Patient Services Revenue to Property Tax Levy	Ratio of Total Expenses to Property Tax Levy	Property Tax Levy as Percent of Total Expenses
1996	5.99	4.64	22%
1997	5.68	4.50	22%
1998	6.67	5.13	19%
1999	7.21	5.55	18%
2000	7.54	5.96	17%

Table T-6
Ratios of Property Tax Levy to Charity Care & Disproportionate Share Revenue to Charity Care R.E. Thomason General Hospital 1996-2000

Year	Ratio of Property Tax Levy to Charity Care	Ratio of Disproportionate Share Revenue to Charity Care
1996	0.73	0.62
1997	0.71	0.56
1998	0.76	0.59
1999	0.66	0.43
2000	0.65	0.24

Table T-7
Total Uncompensated Care & Its Components as Percent of Gross Patient Service Revenue R.E.Thomason General Hospital 1996-2000

Year	Total Uncompensated Care as % of Gross Patient Service Revenue	Contractual Adjustments as % of Gross Patient Service Revenue	Charity Care as % of Gross Patient Service Revenue	Provision for Bad Debts as % of Gross Patient Service Revenue
1996	66%	22%	23%	21%
1997	64%	21%	25%	18%
1998	65%	25%	20%	20%
1999	68%	29%	21%	18%
2000	68%	29%	20%	19%

The federal program to support care for the medically indigent in hospitals that serve a disproportionate share of low-income patients is covering a rapidly declining share of charity care costs at Thomason. Disproportionate share funds were adequate to cover $0.62 of every dollar of charity care in 1996 but have declined dramatically in the last two fiscal years. The funding was only sufficient to cover $0.43 of every dollar of charity care in 1999 and only $0.24 in 2000. Neither of these measures in Table T-6 looks at total uncompensated care, only at the charity care portion of uncompensated care.

Total uncompensated care at Thomason is very large when compared to the total value of medical services delivered. In the past five years it has equaled from 64 percent to 68 percent of gross patient service revenue (Table T-7, p. 13)). Again, contractual adjustments constitute the largest and a growing share of uncompensated care, currently 29 percent of gross patient service revenue. The write offs for charity care and provision for bad debts each amount to approximately 20 percent of gross patient service revenue.

D. Conclusions.

Income from operations at Thomason Hospital has exceeded expenses in three of the past five years (1996-1998) from $15.8 million to $21.4 million. Losses from operations were $4.5 million in 1999 and $20.6 million in 2000. Thomason administrators have a strategy to reverse this negative trend that focuses on improving internal reimbursement and billing processes, cutting costs and attracting more patients with third-party insurance coverage. They anticipate a $10 million loss in fiscal year 2001 and a breakeven point in 2002.

The largest revenue source at Thomason is patient service revenue, the revenue generated from billing for all medical services provided at the institution. In the past five years a stable 70 to 71.4 percent of total revenue was derived from this source, from $103 to $129.4 million. The El Paso Hospital District property tax levy for maintenance and operation is the second most important source of revenue and generates from 15.8 to 17.6 percent of total revenues. *There has been no increase in the total tax rate in thirteen years and the revenue generated by the total levy has increased very slowly in the past five years, from $31.3 million in 1996 to $33.9 million in 2000.* Third in importance as a revenue source and one that declined rapidly in 2000 is the federal *disproportionate share program*. This program provides funds for indigent medical care in hospitals that serve a "disproportionate share" of low-income patients. *Revenue from this source declined gradually from $26.8 million in 1996 to $21.1 million in 1999; disproportionate share revenue for 2000 dropped to $12.3 million.* The public hospital districts in the nine largest counties in Texas together contribute the 38 percent state match required to bring in these federal Medicaid dollars. Altogether there are 150 hospitals in the state that receive disproportionate share funds under the federal guidelines.

Minor sources of hospital revenue are the property tax debt service levy, hospital cafeteria, specific purpose funds and interest/investment return. The specific funds account for four largely grant-financed programs, two traffic safety programs, the Family Planning Services Department, and the Poison Center. These grant-financed activities generate only from 1.7 to 2.3 percent of total revenues.

While gross patient service revenue has grown 36.2 percent from 1996 to 2000, from $187.5 to $255.5 million, total uncompensated care currently equals 68 percent of that sum. In 2000 the largest category of uncompensated care was for contractual adjustments, the difference between the hospital's rates for medical services and rates negotiated with third-party payors. Contractual adjustments amounted to $73.7 million in 2000. The other categories of uncompensated care, charity care and provision for bad debts, totaled $52.3 million and $47.9 million, respectively, in 2000.

There is a broader question of the return in state and federal health care dollars leveraged for each dollar of El Paso County state and federal tax payments. Many institutions and individuals in

El Paso County receive state and federal health care payments in one of several forms, payments to governments, health care vendors and individual transfer payments. This information is not readily available and requires further data collection and analysis, a research activity that is in process.

E. Policy Recommendations.

- R.E. Thomason Board of managers and administrators should continue to emphasize attracting patients with either public or private medical insurance coverage to further offset hospital expenses and charity care costs.

- County policymakers and the Thomason Board of Managers should evaluate the level of property tax revenue for the hospital and determine whether this local financial support for medical services to the indigent should be increased or maintained at present levels.

- As long as national programs to provide medical coverage to the indigent are not broadened and considering the added burden on public hospitals of serving undocumented persons who are not eligible for existing programs (Medicare, Medicaid, CHIPs), the legitimate responsibility of both the state and federal governments to finance a share of these costs is evident. The public hospitals that provide the state match for the federal disproportionate share program are in the nine largest counties in the state. El Paso County policymakers, Thomason Board of Managers and administrators should collaborate with these eight public hospital districts to secure increased federal funding for the program and Texas state appropriations to cover at least a portion of the state match.

- El Paso County policymakers, the boards of managers of hospitals in the county and the Thomason Board of Managers, in particular, should support the reauthorization of the Medicaid provision that reimburses the costs of medical emergency care for undocumented persons, otherwise authorization expires in 2001.

Note.

This analysis of the revenue base of the R.E. Thomason General Hospital supports the Special Report “Balance of Payments in El Paso: Fiscal Federalism from 1995 to 2000”, June 2001 in Institute for Policy and Economic Development Technical Report 2001-04 by Christine Thurlow Brenner, Ph.D., Elizabeth Dalton, Ph.D. and Dennis L. Soden, Ph.D.