RECENT CA HOSPITAL FINANCIAL PERFORMANCE: DATA, QUESTIONS AND CONSIDERATIONS FOR PUBLIC POLICY

ASSEMBLY BUDGET SUB 1

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AGENDA

- 1. CHCF introduction
- 2. California hospital landscape
- 3. Basic financial data
 - a. Recent income/margin analysis
 - b. Variation
 - c. Complexity
- 4. Key policy questions and considerations

CALIFORNIA HEALTH CARE FOUNDATION (CHCF)

- The California Health Care Foundation (CHCF) is an independent, nonprofit philanthropy that works to improve the health care system so that all Californians have the care they need.
- We focus especially on making sure the system works for Californians with low incomes and for communities who have traditionally faced the greatest barriers to care.
- We are a statewide foundation with offices in Oakland and Sacramento. Our work, including our grantmaking and analysis, touches every region of the state.
- We are always happy to provide independent, objective, non-partisan analysis of complex health policy issues.
 Contact information is included on the last slide.

CALIFORNIA HOSPITAL LANDSCAPE: OVERVIEW

- According to CDPH licensing data, there are 411 general acute care (GAC) facilities operating in California. All 58 counties except for Alpine and Sierra have at least one GAC facility.
- HCAI publishes utilization and financial data from a smaller subset of approximately 348 facilities are classified as "comparable." This excludes Kaiser hospitals, which account for 8% of statewide bed capacity, as well as state, long-term psychiatric, long-term care, and other noncomparable facilities.
- Among this smaller subset of comparable hospitals, there are various ownership types, which have general implications for, among other things, the types of patients seen, the types of services provided, and various financing streams.
 - 17 City/County hospitals (e.g., Zuckerberg SF General, Riverside University Medical Center)
 - 32 District hospitals (e.g., Antelope Valley, Kaweah Delta)
 - 131 Investor-owned hospitals (e.g., High Desert Medical Center, Pacifica Hospital of the Valley)
 - 187 Non-profit hospitals (e.g., UCSD Medical Center, Cedars-Sinai, Alta Bates Summit)

Source: California Department of Public Health (CDPH) Electronic Licensing Management System (ELMS) updated March 2, 2024; California Department of Health Care Access and Information (HCAI) Hospital Annual Financial Disclosures, updated October 2023.

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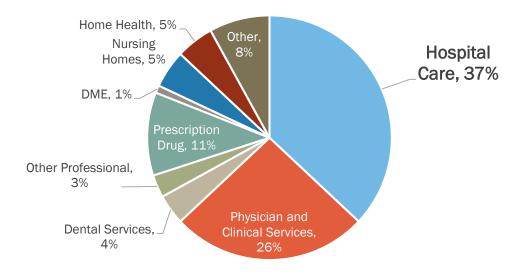
CALIFORNIA HOSPITAL LANDSCAPE: THREE IMPORTANT TAKEAWAYS

- Essential. California's hospitals have long been and continue to be an essential component of California's health care delivery system. It is impossible to overstate the heroic nature of the sector's response to COVID-19 and the essential role it plays in the care continuum after the public health emergency.
- Diverse. California's hospital sector exhibits tremendous variation in, among other things, organizational control, geographies served (e.g., 59 rural facilities), populations served (e.g., 135 DSH hospitals), and organizational missions (e.g., 29 teaching hospitals). This variation and complexity characterizes hospital finance as well.
- Evolving. The care provided by California's hospitals is both changing and continually dependent on the infrastructure that surrounds it. There is a decades-long shift from inpatient to outpatient care that can be provided in non-hospital settings. At the same time, inadequate primary care investment, lack of post-acute discharge locations, or insufficient social service infrastructure can push more people into hospitals and/or keep them there when they don't need to be.

CALIFORNIA HOSPITAL FINANCING: TOTAL REVENUE

- Approximately \$150 billion flowed into California's hospital sector in 2020. Care provided by hospitals accounts for by far the largest share of California and national health expenditures.
- Broadly, these financial resources come from a range of federal, state, and local tax dollars; insurance premiums and out-of-pocket expenses paid directly by Californians; and the foregone wages of those with employer-sponsored insurance.
- Hospitals in the state disclose total payments from Medicare, Medi-Cal, commercial, and other payers on a quarterly and annual basis.

Total Health Care Spending in California (\$405 billion), 2020

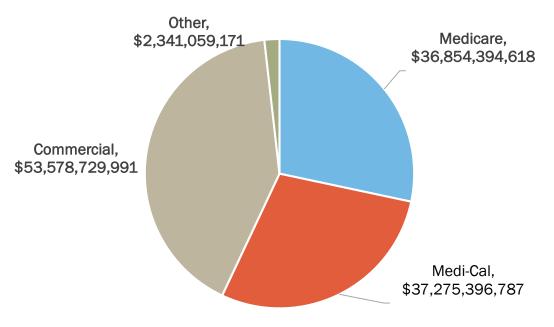


Source: CMS OACT "Health Expenditures by State of Residence, 1991-2020," updated September 2023.

CALIFORNIA HOSPITAL FINANCING: SOURCES OF REVENUE

- HCAI financial disclosures provide some information about payments from Medicare, Medi-Cal, and commercial payers.
- In 2022, Medicare and Medi-Cal accounted for about 57% of net patient revenue in CA hospitals.
 Commercial payors accounted for around 41%.
- Over the last 10 years, Medi-Cal has become an increasingly important source of revenue of CA hospitals.

Net Patient Revenue in CA Hospitals, 2022

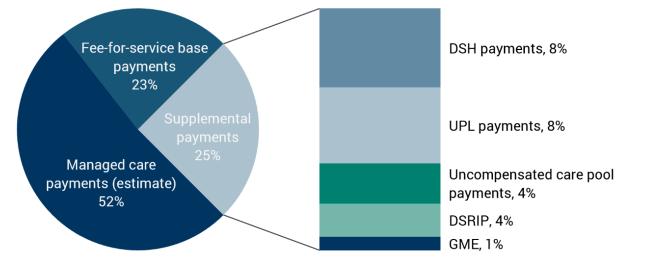


Source: California Department of Health Care Access and Information (HCAI) Hospital Annual Financial Disclosures, updated October 2023.

CALIFORNIA HOSPITAL FINANCING: COMPLEXITY WITHIN LINES OF BUSINESS

- Hospital financing—both how much and the specific mechanisms by which the financing flows—get very complex very quickly.
- For example, hospitals participating in Medi-Cal are eligible for certain types of supplemental payments above the FFS base and managed care rates. Examples include DSH, QIP, GPP.
- Compounding the complexity is the variation in payments depends on the type of system. For example, rural hospitals, teaching hospitals, and hospitals serving large numbers of patients with low incomes are eligible for different supplemental payments.
- At a high level, it can be more meaningful to focus on "revenue" rather than "rates."





ADDING IT ALL UP: CALIFORNIA HOSPITAL INCOME/MARGIN ANALYSIS 2019-23

	2019	2020	2021	2022	2023 (Projected*)
Net Patient Revenue	110,339,598,730	110,197,285,074	121,180,029,219	129,317,829,557	136,163,127,618
Other Operating Revenue	4,916,346,076	8,543,781,072	6,724,692,441	6,680,740,298	6,942,456,401
Total Operating Revenue	115,255,944,806	118,741,066,146	127,904,721,660	135,998,569,855	143,105,584,019
Total Operating Expenses	110,916,825,065	118,821,186,679	125,518,697,307	135,493,852,595	143,236,743,513
Net Operating Income	4,339,119,741	-80,120,533	2,386,024,353	504,717,260	-131,159,494
Total Nonoperating Revenue	5,758,242,831	5,358,247,472	6,551,414,372	318,035,774	5,148,679,322
Net Income (Pretax)	10,097,362,572	5,278,126,939	8,937,438,725	822,753,034	5,017,519,828

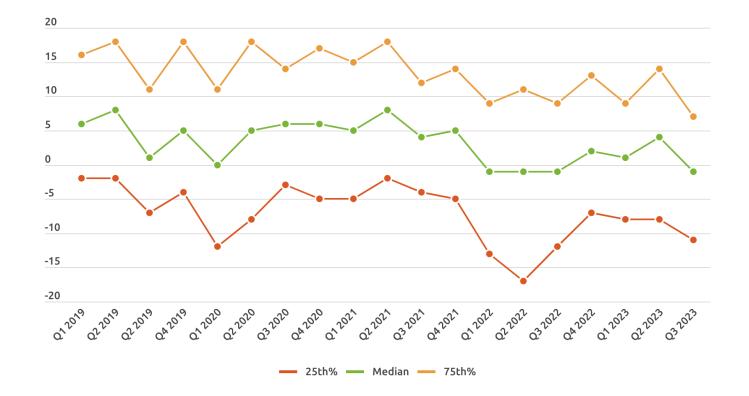
Source: California Department of Health Care Access and Information (HCAI) Hospital Quarterly Financial Disclosures, updated January 2024.

KEY TAKEAWAYS FROM INCOME/MARGIN ANALYSIS

- In 2019, hospitals reported \$4.3 billion in net operating revenue and \$5.8 billion in net nonoperating revenue, for total net income of \$10.1 billion.
- Hospitals reported losing \$80 million on operations during the first year of the pandemic, although nonoperating revenue remained steady at \$5.4 billion. This contributed to total net income of \$5.3 billion, a decline of about 50% compared to total net income in 2019.
- In 2021, operating margins turned positive, although they generally remained lower than they were prior to the pandemic.
 Nonoperating revenue grew to \$6.6 billion in 2021, causing net income to increase to \$8.9 billion.
- Total net income declined sharply in 2022 to \$823 million as many hospitals experienced increases in operating expenses and significant reductions in nonoperating revenue.
- Data from the first three quarters of 2023 show a rebound in nonoperating revenue compared to 2022, even with a decline in nonoperating revenue between the second and third quarters of 2023. California hospitals are now projected to earn around \$5 billion in total net income in 2023, despite marginal losses on operations.

Source: G. Melnick, "Three Charts That Help Explain the Financial Health of California Hospitals," California Health Care Foundation, updated February 2024.

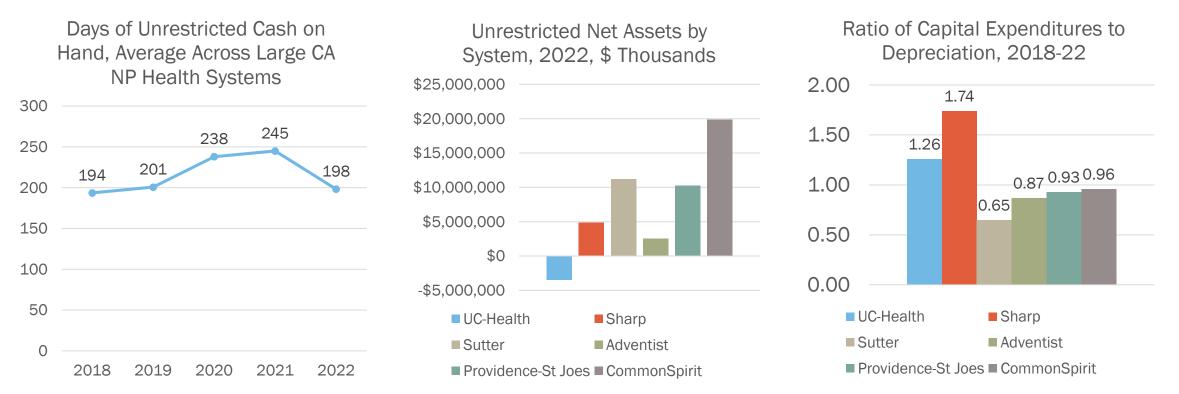
ALWAYS REMEMBER: WIDE VARIABILITY QUARTER TO QUARTER AND FACILITY TO FACILITY!



Source: California Department of Health Care Access and Information (HCAI) Hospital Quarterly Financial Disclosures, updated January 2024.

CALIFORNIA HEALTH CARE FOUNDATION

ALWAYS REMEMBER: FINANCIAL HEALTH IS MORE THAN MARGIN!



Source: Analysis of audited financial statements of Adventist, CommonSpirit, Sharp, Sutter, UC Health, and Providence-St Joseph health systems.

KEY POLICY QUESTIONS AND CONSIDERATIONS

How financially healthy are hospitals in the state of California?

Independent analysis of HCAI financial disclosures and audited financial statements can be helpful but not determinative. Performance of the sector as a whole may not be reflective of an individual facility or system (good or bad).

Is hospital x at risk of closure?

Income and margins are just a few of many important indicators, and they can be highly variable month-to-month and year-to-year. Some hospitals have significant financial reserves and others do not. Over the last 15 years, approximately 10 hospitals closed due to financial performance, and several systems built new—or significantly upgraded existing—facilities.

Would raising Medi-Cal payment rates improve a hospital's balance sheet?

- Increasing revenue from any payer will improve a hospital's margin, yet health services research makes clear that increasing revenue (numerator) has an impact on underlying costs (denominator)—and increasing revenue does not lead to increased capacity for unprofitable servicers (e.g., obstetric care, SUD treatment, psychiatric care).
- At a high level, HCAI financial disclosures and Medicare cost reports suggest that payment-to-cost ratios are least favorable for Medicare lines of business. Supplemental payment streams significantly improve Medi-CaI payment-to-cost ratios. More transparency on revenue streams and costs would be helpful.

KEY POLICY QUESTIONS AND CONSIDERATIONS

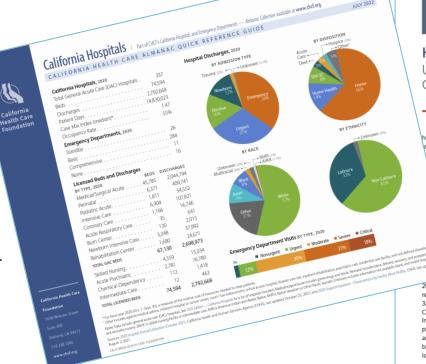
- Does hospital y need \$zzz million to operate?
 - Underlying costs are variable over time and among facilities. A given cost structure may or may not be efficient. All underlying costs are
 ultimately paid for by California consumers through premiums, out-of-pocket costs, foregone wages, and taxes.
- Is operating a hospital or a particular service line (e.g., L&D) in a particular region financially viable in the longterm?
 - The specific type and location of a facility determine eligibility for some federal and state supplemental payment streams. A facility's size, competitive environment, and system-membership status impact the payment rates it can negotiate.
 - Hospitals may or may not have an efficient underlying cost structure and have varying degrees of control over those costs.
 - The viability of offering a particular service line often depends on a complex set of factors in addition to basic financial analysis, including shifting demographics (e.g., fewer births), changes in medical practice and/or patient preferences (e.g., birthing centers), safety (e.g., declining volume), and workforce shortages.

Is providing additional funding to hospitals a good use of public resources?

- Hospitals are an important part of CA health care infrastructure, and, at the same time, there is a decades-long shift away from providing
 many services in them. Some communities may derive more value from directing resources to, for example, non-hospital-based primary
 care, behavioral health care, and/or social services.
- Hospitals are often an important source of employment opportunities in rural parts of the state, and financial insolvency may have serious impacts on regional labor markets.

FOR MORE INFORMATION

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MAY 2023

by Glenn Melnick and Susan Maerki

Heading for an Acute Crisis? Utilization, Revenue, Expenses, and Margins in California's Hospitals, 2019–22

he COVID-19 pandemic has had a profound 2022. Total hospital volume (outpatient visits includ-Impact on the operation, finance, and delivery of health care services in California's acute care hospitals. Previous analysis has shown pronounced eductions in total patient volume, increases in undering operating costs, and the importance of other erating and nonoperating revenue streams in the t calendar year of the pandemic.1 Now three full s in, hospitals report persistent operational chales and financial headwinds, including higher lying staffing and supply costs, longer lengths and lack of adequate discharge locations for ute patients, and the end of federal pandemicsidies.² Some stakeholders predict a wave of bankruptcies without more public funding.²

brief updates prior estimates of utilization, revenue in California hospitals through 2022. The analysis is primarily based on and financial data covering calendar years 2019 through 2022 for 348 acute care hospitals that reported each quarter throughout the period.4 These 348 facilities are classified as "comparable" by the California Department of Health Care Access and Information (HCAI) and represent about 80% of hospital capacity in the state.⁵ Excluded from the analysis are Kaiser hospitals, which account for 8% of statewide bed capacity, as well as state, long-term psychiatric, long-term care, and other noncomparable facilities.

The data in this analysis paint a nuanced and raphealth of California hospitals through the end of matically among facilities and systems.⁴

ing emergency department visits plus inpatient days) rebounded to prepandemic levels by Q2 of 2021 and now exceeds 2019 levels by 6%. While net patient revenue across all payers increased yearly in 2020, 2021, and 2022, so did underlying expenses, due in part to higher acuity of services and rising staffing and supply costs. Nonoperating revenue, an increasingly important source of financial stabilization for many California facilities, grew markedly in 2020 and 2021 before declining sharply in the first three quarters of 2022.

Taken together, the large sample of hospitals reported total net income of \$5.2 billion in 2020, around half the net income of the previous year. Hospitals netted \$9.2 billion in 2021, still slightly less than they made before the pandemic. The data reveal a sudden and sharp decline to \$207 million in net income for California hospitals in 2022. Within this broader decline in prof-Itability, a subset of facilities experienced significant losses. Hospitals with the worst net income margins varied substantially based on size, geographic area, and patient population. Notably, those with the lowest margins were not necessarily more dependent on Medi-Cal or Medicare volume than the average California hospital.

Excluded from this analysis is information on the liquidity of hospitals and health systems in California. Previous national and state studies have shown that, like measures of income and profitability, indicators of Idly changing portrait of the operations and financial overall financial status and financial reserves vary dra-