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RURAL HOSPITAL FINANCIAL TRENDS IN CALIFORNIA

A PRELIMINARY LOOK AT THE DATA

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AGENDA

- Recent financial performance among all CA hospitals
- Rural hospitals in CA, key characteristics and financial performance
- Overall trends in maternity care in rural CA hospitals
- Key financial and policy considerations



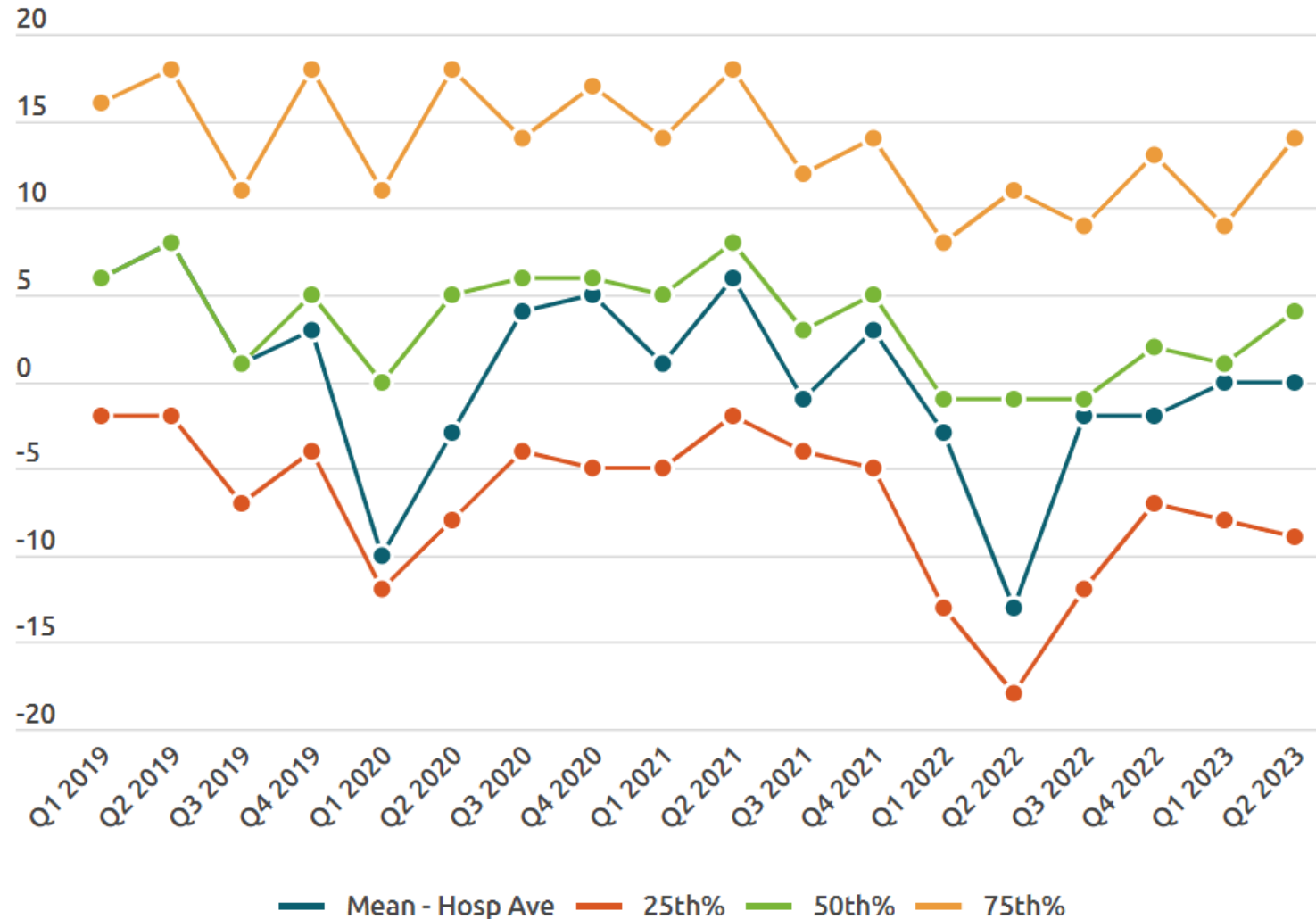
RECENT CA HOSPITAL FINANCIAL PERFORMANCE



HEADING FOR AN ACUTE CRISIS? CALIFORNIA HOSPITAL FINANCIAL PERFORMANCE COMING OUT OF COVID-19

	2019	2020	2021	2022	2023
Net Patient Revenue	110,800,023,237	110,589,455,229	121,650,165,815	129,770,010,059	136,043,167,768
Other Operating Revenue	4,927,450,242	8,555,793,483	6,740,556,439	6,692,510,751	7,742,647,100
Total Operating Revenue	115,727,473,479	119,145,248,712	128,390,722,254	136,462,520,810	143,785,814,868
Total Operating Expenses	111,437,496,718	119,289,665,830	126,022,191,650	136,018,577,290	143,993,844,310
Net Operating Revenue	4,289,976,761	-144,417,118	2,368,530,604	443,943,520	-208,029,442
Net Nonoperating Revenue	5,769,206,331	5,379,315,880	6,572,695,883	332,787,547	7,288,255,478
Net Income (Pretax)	10,059,183,092	5,234,898,762	8,941,226,487	776,731,067	7,080,226,036

TOTAL REVENUE MARGIN IS HIGHLY VARIABLE AMONG CA HOSPITALS



OVERALL FINANCIAL TAKEAWAYS

- CA hospitals overall had net profit or income of around \$10b in 2019
- Profit and net income fell to around \$5b in 2020 before rebounding in 2021
- 2022 was a tough financial year with higher supply and wage costs, longer lengths of stay
- Incomplete 2023 suggests improvement



MAY 2023

by Glenn Melnick and Susan Maerki

Heading for an Acute Crisis?

Utilization, Revenue, Expenses, and Margins in California's Hospitals, 2019–22

The COVID-19 pandemic has had a profound impact on the operation, finance, and delivery of health care services in California's acute care hospitals. Previous analysis has shown pronounced reductions in total patient volume, increases in underlying operating costs, and the importance of other operating and nonoperating revenue streams in the first calendar year of the pandemic.¹ Now three full years in, hospitals report persistent operational challenges and financial headwinds, including higher underlying staffing and supply costs, longer lengths of stay and lack of adequate discharge locations for postacute patients, and the end of federal pandemic-era subsidies.² Some stakeholders predict a wave of hospital bankruptcies without more public funding.³

This issue brief updates prior estimates of utilization, costs, and revenue in California hospitals through the end of 2022. The analysis is primarily based on utilization 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.³ 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 rapidly changing portrait of the operations and financial health of California hospitals through the end of

2022. Total hospital volume (outpatient visits including 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 profitability, 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 overall financial status and financial reserves vary dramatically among facilities and systems.⁴

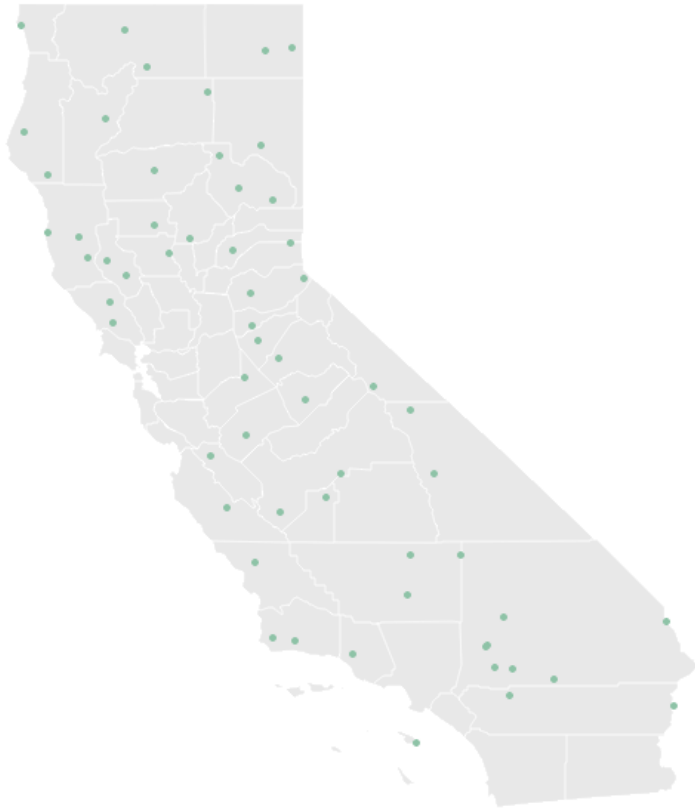
CLOSE UP ON RURAL HOSPITALS IN CA



CALIFORNIA CODE, HEALTH AND SAFETY CODE - HSC § 124840

- “Small and rural hospital” means an acute care hospital that meets either of the following criteria:
- (a) Meets the criteria for designation within peer group six or eight, as defined in the report entitled Hospital Peer Grouping for Efficiency Comparison, dated December 20, 1982.
- (b) Meets the criteria for designation within peer group five or seven and has no more than 76 acute care beds and is located in an incorporated place or census designated place of 15,000 or less population according to the 1980 federal census.

59 "SMALL AND RURAL" HOSPITALS IN CA IN 2022

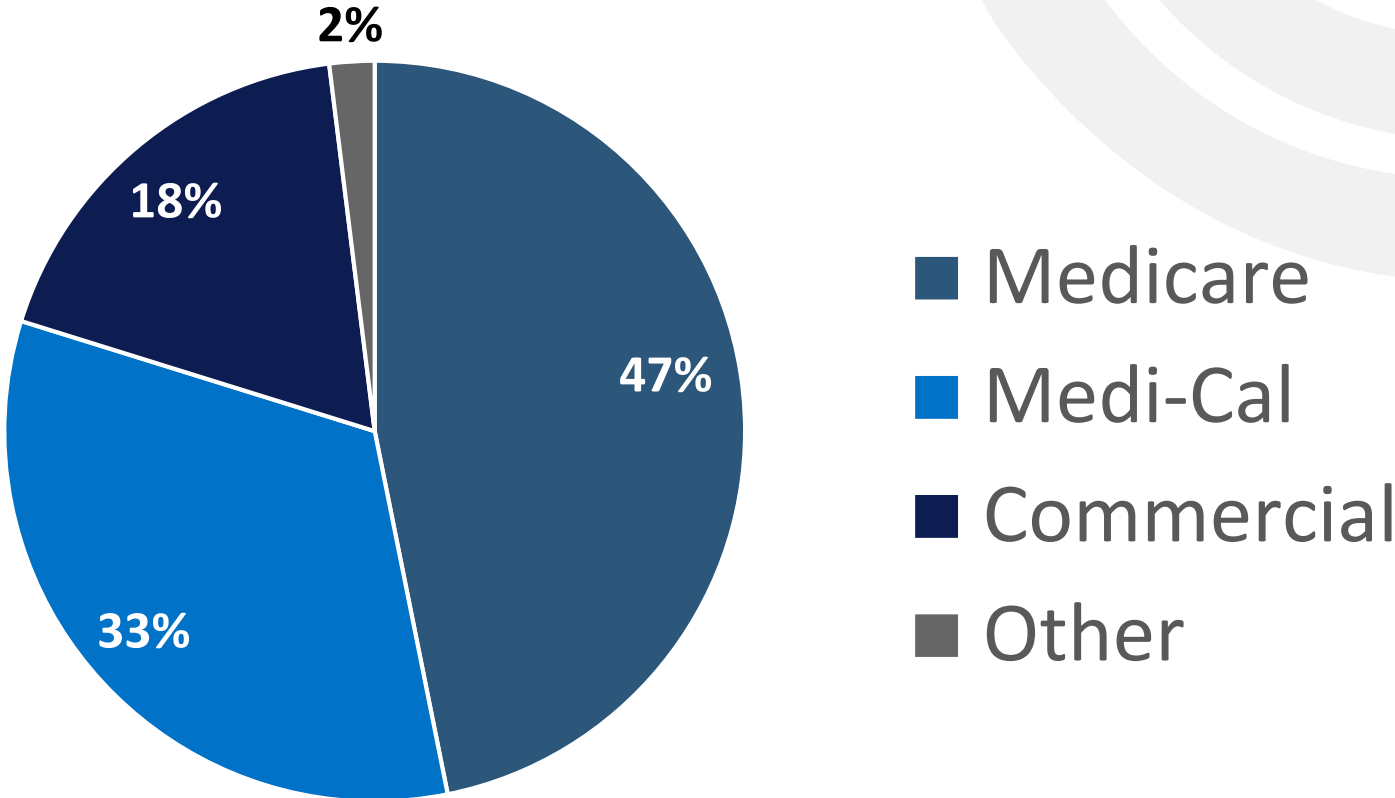


- Non-profit, investor-owned, and district facilities
- Slightly less than half in systems
 - Adventist
 - Sutter
 - Dignity
 - Providence-St. Joseph
 - American Advanced Management Group
- 26 in Partnership service area

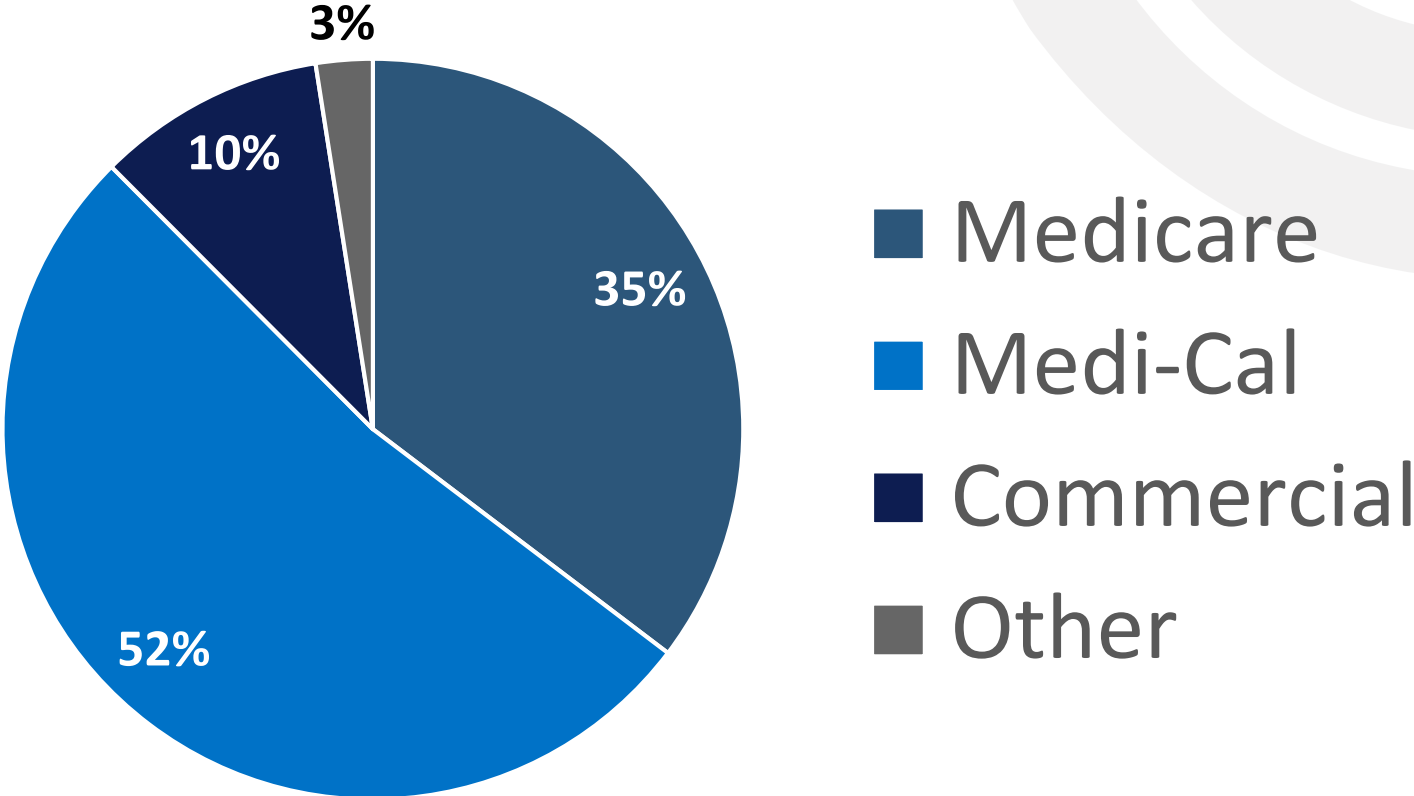
KEY CA RURAL HOSPITAL UTILIZATION DATA—2022

	RURAL CA HOSPITALS
Licensed Beds	3,823
Licensed Bed Occ. Rate	56.54%
Available Beds	3,714
Available Bed Occ. Rate	58.20%
Patient Days (excl. nursery)	788,907
Discharges (excl. nursery)	96,870
Average Length of Stay (est.)	8.14

DISCHARGES IN RURAL CA HOSPITALS BY PAYOR—2022



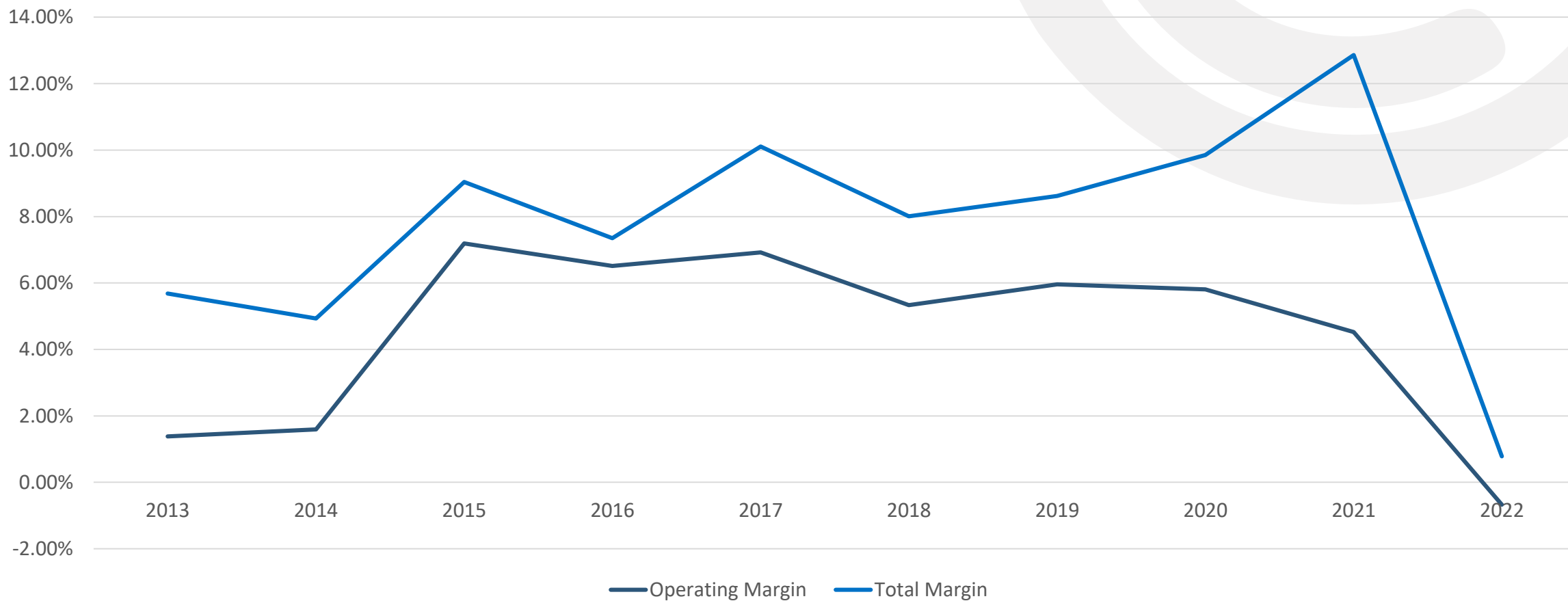
PATIENT DAYS IN RURAL CA HOSPITALS BY PAYOR—2022



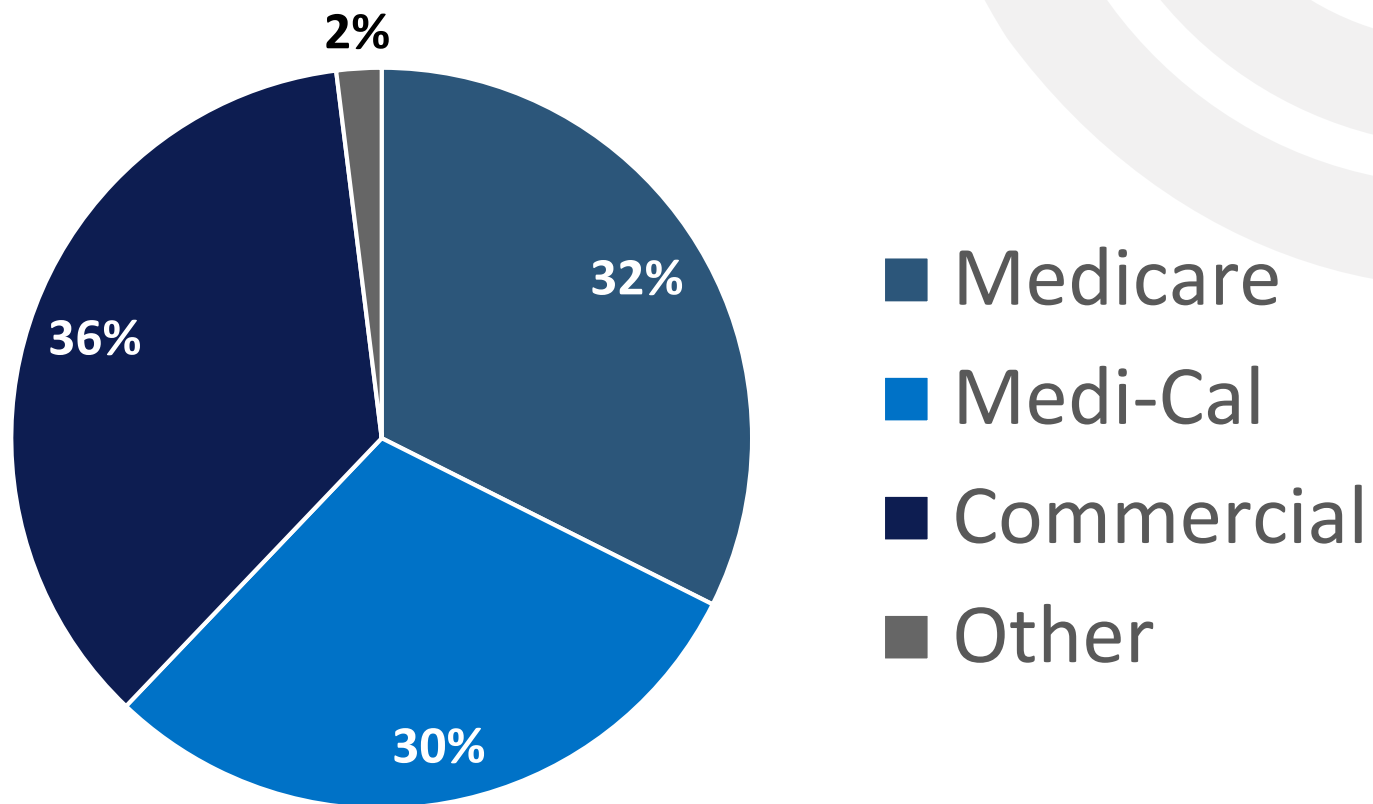
KEY CA RURAL HOSPITAL FINANCIAL DATA—2022

	RURAL CA HOSPITALS
Gross Patient Revenue	\$ 18,750,915,428
- Deductions from Revenue	13,438,539,911
+ Capitation Premium Rev.	89,469,705
Net Patient Revenue	\$ 5,401,845,222
+ Other Operating Revenue	209,970,007
Total Operating Revenue	\$ 5,611,815,229
- Operating Expenses	5,649,279,950
Net from Operations	(\$37,464,721)
+ Non-Operating Revenue	197,706,352
- Non-Operating Expense	116,444,002
- Income Taxes	0
- Extraordinary Items	0
Net Income	\$ 43,797,629

OPERATING AND TOTAL MARGIN IN RURAL CA HOSPITALS, 2013-2022



NET PATIENT REVENUE IN RURAL CA HOSPITALS BY PAYOR— 2022



NET PATIENT REVENUE / EXPENSES (EST.) IN RURAL CA HOSPITALS BY PAYOR—2022

	Total	Medicare	Medi-Cal	Commercial	Other
Net Patient Revenue	\$ 5,401,845,222	\$ 1,750,533,315	\$ 1,605,387,179	\$ 1,939,753,353	\$ 106,171,375
Expenses (Est.)	\$ 5,439,309,943	\$ 2,277,373,020	\$ 1,708,225,813	\$ 1,314,127,616	\$ 139,583,494
NPR/Exp (Est.)	99%	77%	94%	148%	76%

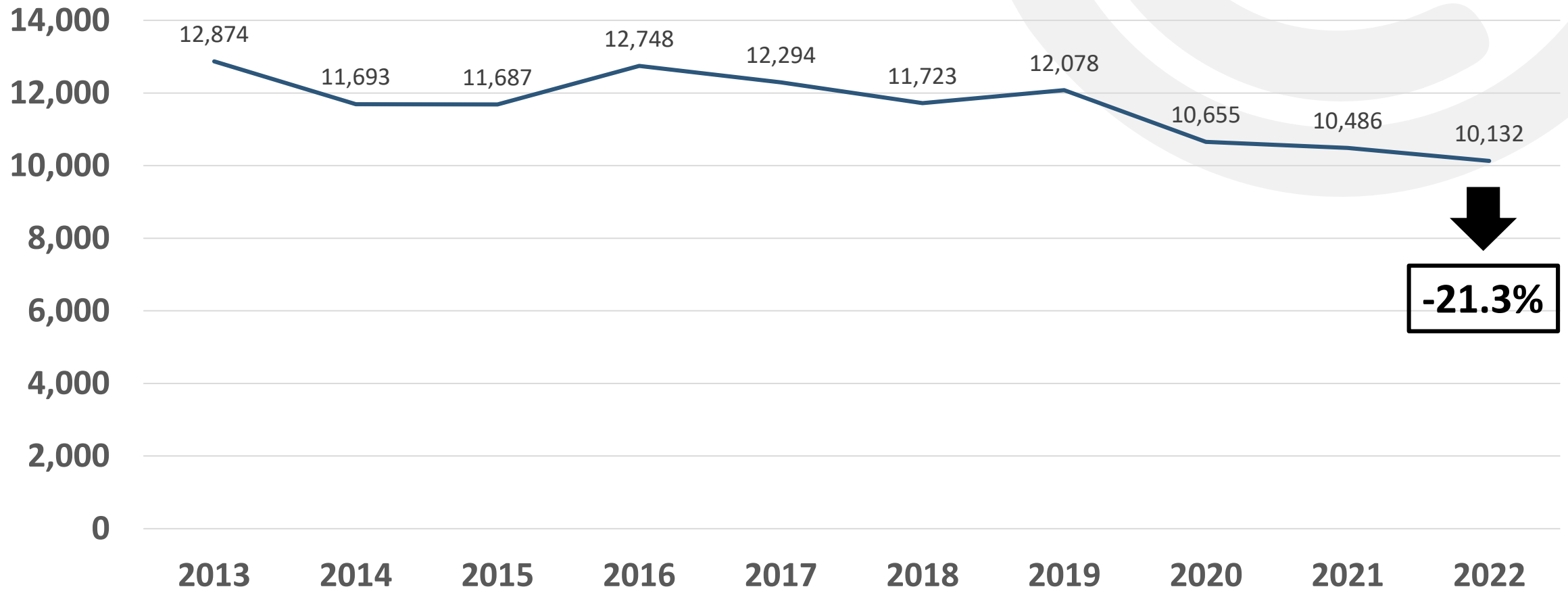
KEY TAKEAWAYS FROM RURAL CA HOSPITAL FINANCIAL DATA

- Medi-Cal is a particularly important payor for rural hospitals in California. In 2022, Medi-Cal enrollees counted for half of all patient days and a third of discharges.
- Financial pressures across the hospital sector in 2022 were felt among rural hospitals in California. Rural CA hospitals reported losing roughly \$37mm on patient care that year.
- Net patient revenue is roughly split between commercial, Medi-Cal and Medicare lines of business.
- In 2022, net patient revenue met approximately 99% of estimated patient care expenses. This ratio varied significantly among Medicare (77%), Medi-Cal (94%), and Commercial (148%) lines of business.

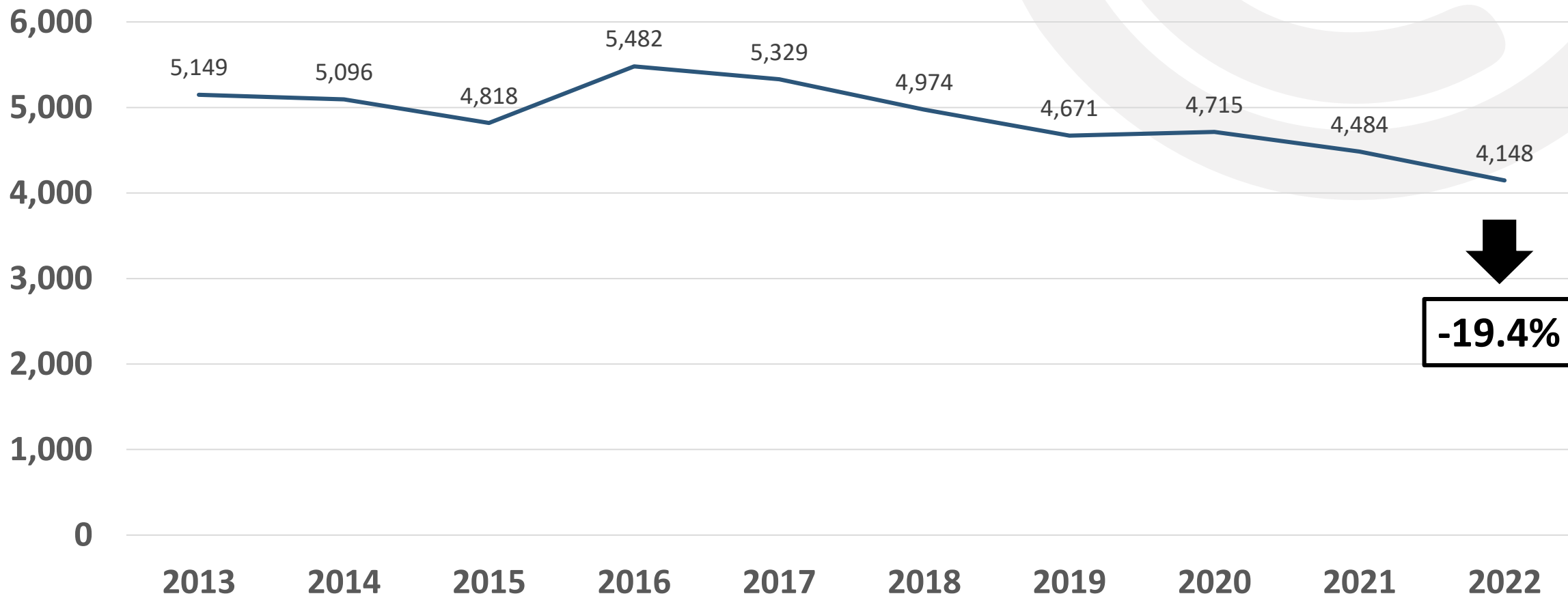
OVERALL MATERNITY CARE TRENDS IN RURAL HOSPITALS IN CA



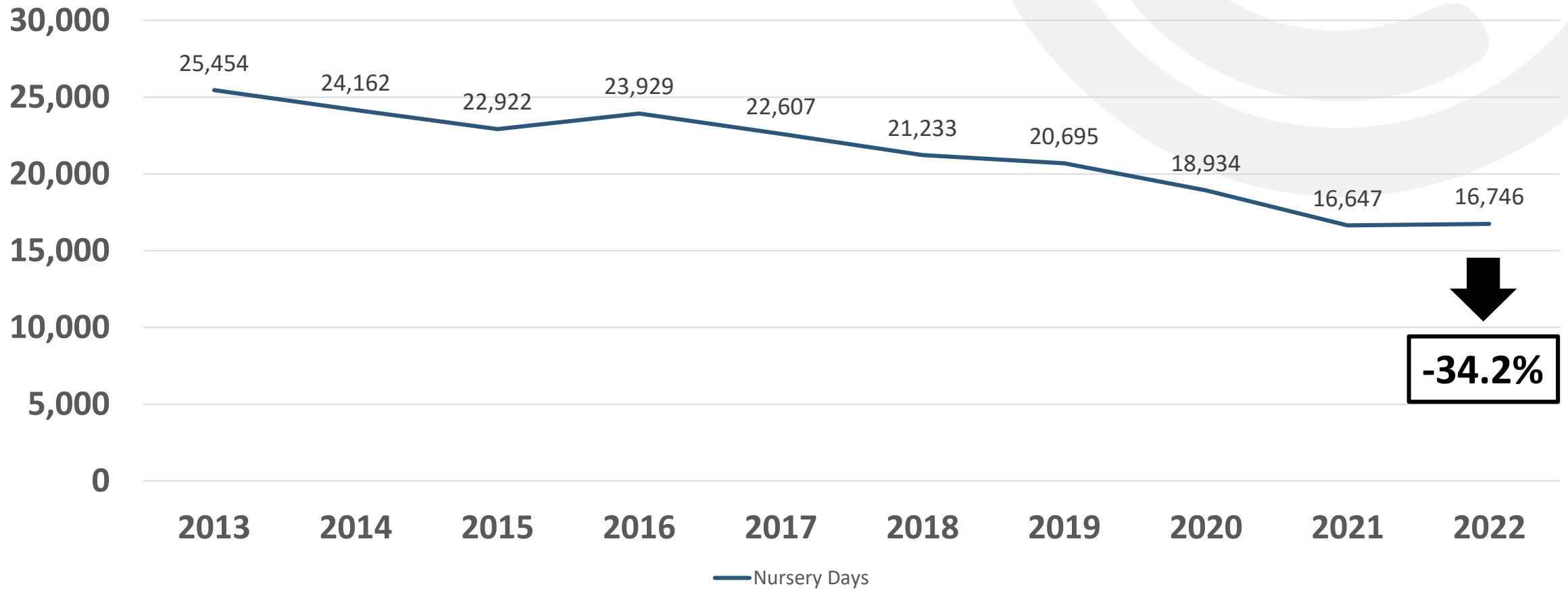
TOTAL NATURAL BIRTHS IN RURAL CA HOSPITALS, 2013-2022



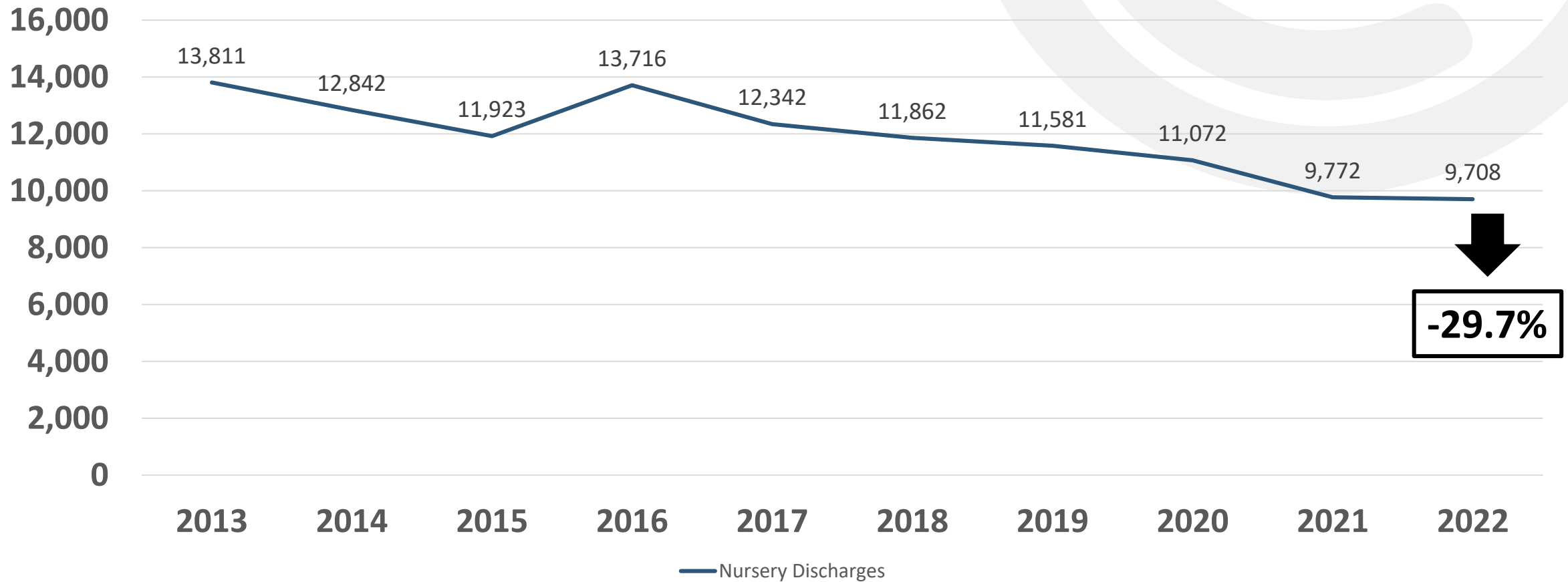
TOTAL CESAEREAN SECTIONS IN RURAL CA HOSPITALS, 2013-2022



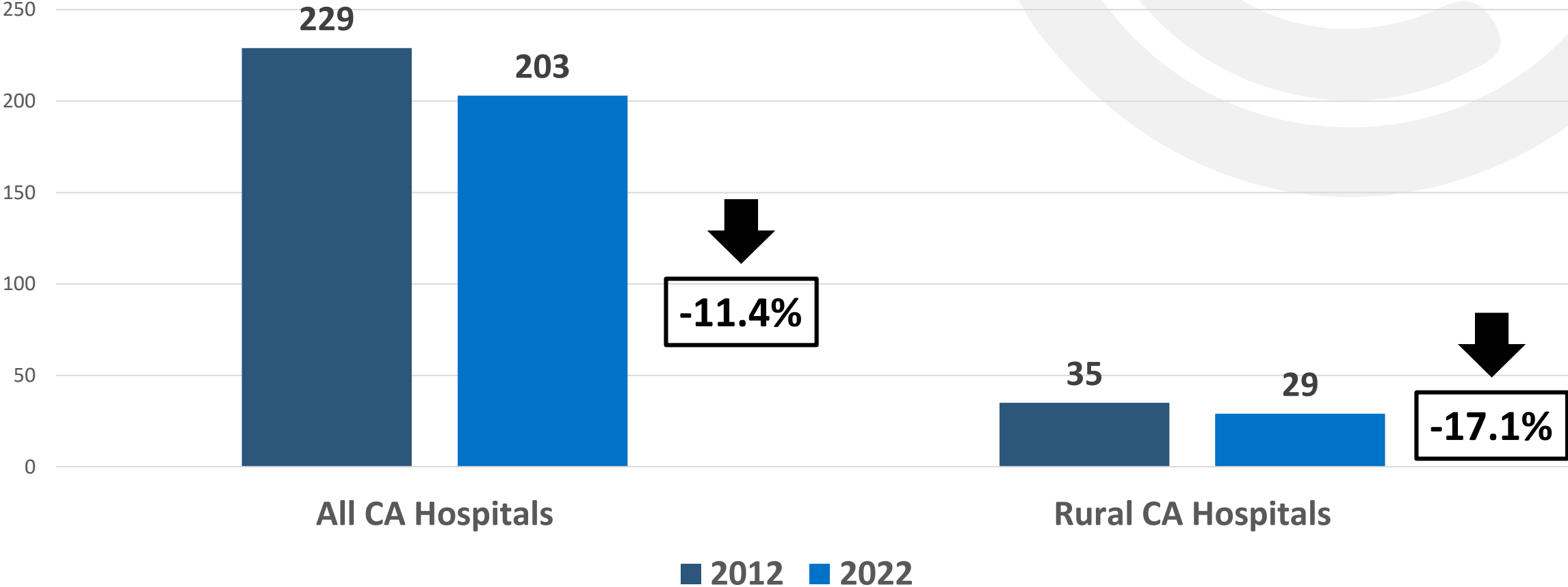
TOTAL NURSERY DAYS IN RURAL CA HOSPITALS, 2013-2022



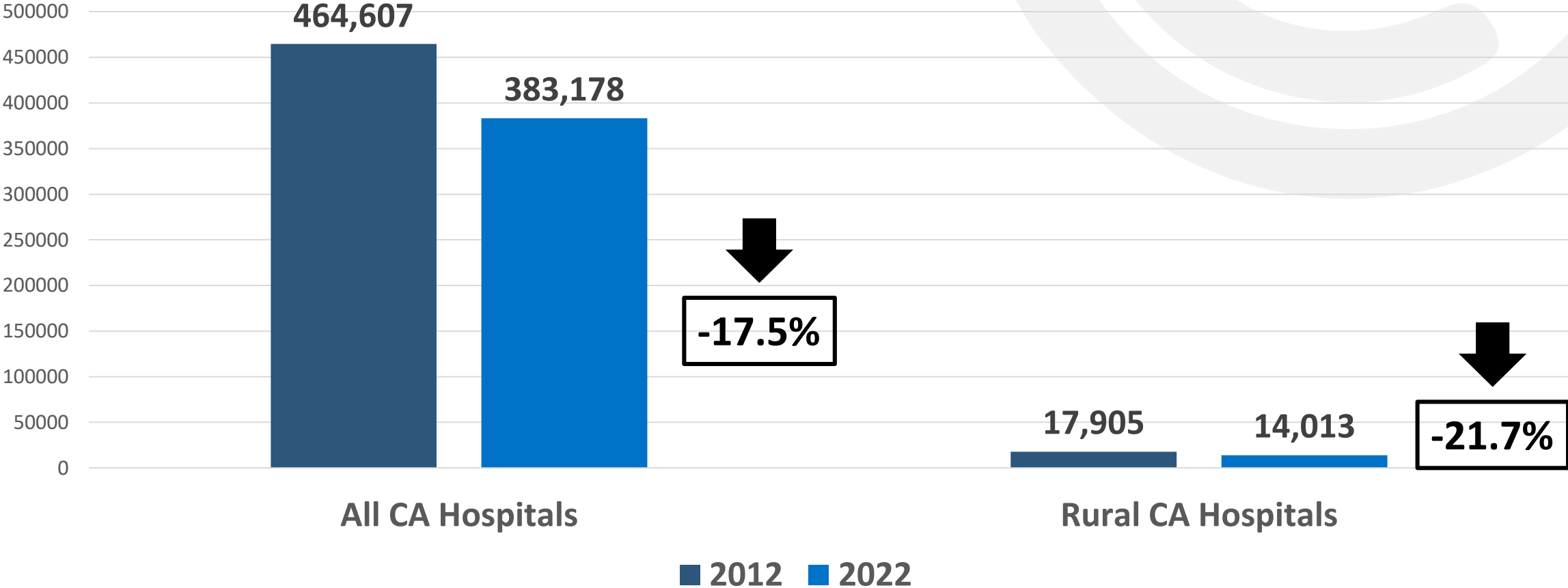
TOTAL NURSERY DISCHARGES IN RURAL CA HOSPITALS, 2013-2022



CA HOSPITALS WITH ANY BIRTHS



TOTAL BIRTHS IN CA HOSPITALS



KEY FINANCIAL AND POLICY CONSIDERATIONS



KEY FINANCIAL AND POLICY CONSIDERATIONS

- Many stakeholders report that Medicaid/Medi-Cal does not cover the full cost of providing services, including obstetric services. Increasing payments rates will be challenging in a difficult state budget climate.
- Recruiting and retaining providers is challenging in many parts of California, but those challenges are particularly acute in rural areas. Solving for these issues is a long-term proposition.
- More immediate strategies around remote consultations and regional partnerships may be more feasible in the short term.



THANK YOU



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