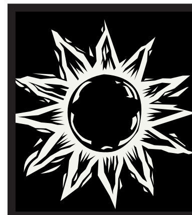
CALIFORNIA MANAGED CARE REVIEW

2001

ALLAN
BAUMGARTEN

Research supported by:
The California HealthCare Foundation



CALIFORNIA MANAGED CARE REVIEW

2001

BY ALLAN BAUMGARTEN

SPONSORED BY THE CALIFORNIA HEALTHCARE FOUNDATION

© COPYRIGHT 2001 ALLAN BAUMGARTEN.

ALL RIGHTS RESERVED.

4800 WEST 27TH STREET

MINNEAPOLIS, MINNESOTA 55416

(952) 925-9121

Fax: (952) 925-9341

E-mail: Baumg010@tc.umn.edu

www.AllanBaumgarten.com

Contents

About This Report 3

Overview of Findings 4

I. Market Review — The Players 6

Health Plan Companies 6

Hospital Systems 11

Physician Organizations 13

Health Plan Provider Relations: Capitation and Delegation 15

Purchasers 16

II. Trend Review 20

About This Analysis 20

HMO Enrollment 20

Medicare Plans 22

Medi-Cal 25

Enrollment by Region 28

Enrollment Prospects 30

Profitability 30

Premium Revenue Trends 32

Medical Loss Ratios 35

Capitation Payments 36

Administrative Expenses 37

Net Worth 37

III. Regional Sub-markets and Provider Systems 40

San Francisco Bay Area 41

Sacramento 48

Central Valley 51

Los Angeles - Orange 54

Inland Empire 64

San Diego 67

ABOUT THIS REPORT

Managed health care has had an enormous impact on organizations and individuals in California. It is high on the agenda in state government and in other policy forums. Yet, these discussions do not always begin with a shared set of data about and a common understanding of organizations and issues in the market. The California Healthcare Foundation commissioned this report to provide a variety of audiences with an objective analysis of market issues and trends and a set of data that will help inform future debates about health policy.

The report focuses on the organizations that deliver, organize, and finance health care and health insurance in the state. It presents data on enrollment, finances, and utilization trends for health maintenance organizations, hospitals, and physicians' organizations. The analysis seeks to put these data in context with developments in the market, including purchaser initiatives, provider integration, and state policies on health care access and quality. Other aspects of health care, such as dental health, alternative medicine, mental health, and long-term care are generally not covered here.

Two kinds of research were employed in this report. First, historic and current data were assembled, generally from public sources, on the health plans, hospitals, and physician organizations in California. These figures, mostly from fiscal years ending in 1999, were used to calculate a variety of ratios, trends, and other measures. The exhibits in the report usually cite as their source the author's analysis of the data in these public reports. Second, dozens of leaders in the market were interviewed, most in the first six months of 2000: executives of health plans, hospital systems, state associations, purchasers, advocacy groups, and state agencies. In all, more than 50 interviews were conducted, generally in person, to gain a broad range of perspectives on issues and trends in California.

The report begins with a summary of key findings, followed by three major sections. The first provides an overview of the health plans, provider organizations, and purchasers in the state, describing their ongoing evolution. The second section analyzes important trends for health plans, looking at their enrollment and financial results. The final section examines market trends and issues within key regions of California: the Bay Area, Sacramento, the Central Valley, Los Angeles-Orange County, Inland Empire, and San Diego. Exhibits provide information about the key health plans, physician organizations, and hospitals in each of those regions. In the sidebars of this report and occasionally in the text, California is compared with seven other states on a variety of measures: Colorado, Florida, Illinois, Michigan, Minnesota, Ohio, and Texas.

What is Managed Care?

The Health Insurance Association of America, a Washington-based insurance industry group, describes managed care systems as plans or organizations that integrate the financing and delivery of appropriate health care services to covered individuals using the following basic elements:

- arrangements with selected providers to furnish a comprehensive set of health care services to members;
- explicit standards for the selection of health care providers;
- formal programs for ongoing quality assurance and utilization review and
- significant financial incentives for members to use providers and procedures associated with the plan.

The managed care industry and HMOs have been the targets of strong negative rhetoric lately, not just in the news media but also in movies and on late night TV talk shows. The industry has shied away from the terms HMO and managed care, preferring alternatives like health plans, comprehensive care or coordinated care.

Types of Managed Care Plans

Health Maintenance Organizations (HMOs): Prepaid plans that provide comprehensive care to enrollees. An HMO employs or contracts with health care providers. Through those contracts, providers may assume some financial risk for the utilization of given enrollees.

Preferred Provider Arrangements or Organizations (PPOs): Used by insurance companies and self-funded employers as a vehicle to contract with a limited panel of providers who agree to a (discounted) fee schedule in anticipation of receiving an increased volume of patients. In *self-funded* plans, the employer assumes the risk for the costs of medical care, rather than paying an insurer a premium to assume the risk. The term *Point-of-service* is used differently in different markets. In the context of HMOs, point-of-service plans provide full coverage when using the HMO's provider panel and indemnity coverage, with additional enrollee cost-sharing, for services received from providers outside the HMO network. In the context of PPOs or insurance carriers, it also refers to a two-tiered plan for coverage—in and out of network— and usually includes a requirement that enrollees select a primary care physician to coordinate their care and referrals to specialists.

OVERVIEW OF FINDINGS

These are some characteristics of the California market at the end of the 1990s and findings from the report on the directions in which the market seems to be moving in 2001:

1. Risk avoidance. Insurance for health care or property is based on pooling risks and attempting to manage them in such a way that satisfying profits result. In California in the early 1990s, many HMOs transferred risk to provider organizations through capitation arrangements, and many provider organizations sought out those arrangements. In what is called the California delegated model, it is common for health plans to transfer significant functions, including medical management and claims processing, to provider organizations along with the capitation payments. The HMO functions as a marketing organization. While such arrangements were common around the country by the mid-1990s, they existed on a much larger scale in California. In fact, many physician organizations were formed specifically to facilitate those contracts. That is still the case, but health plans, provider organizations, and employers are increasingly seeking to avoid risk.

In the late 1990s, physician groups found that they could easily lose money under capitation arrangements. That was especially true in a competitive environment where aggressive pricing or low increases in government program payments held down premium revenue (of which they received a percentage) but where medical costs were increasing rapidly. While some physician organizations in California wanted to continue risk arrangements under a delegated model, others have decided that they cannot continue to sustain losses and began looking to reduce their risk. Employers, seeking more predictability and stability for their health benefit costs, have shown increasing interest in health benefit plans that require additional cost-sharing by employees and in the still somewhat uncharted notion of defined contribution plans.

Health plans and hospitals also are trying to limit their exposure to risk. By 1999, several health plans were putting more emphasis on PPO plans and administration of self-funded employer group plans. Several hospital systems ended their global capitation HMO contracts in 1999 and 2000 and replaced those with arrangements in which they are paid per diem rates or by other methods. At the same time, some of the hospitals that started their own HMOs have decided to get out of that part of the insurance business.

2. Slower HMO enrollment growth. Enrollment in California HMOs grew steadily in the 1990s, increasing from about 15.9 million in 1995 to 20.4 million in 1999. All major lines of business — commercial, Medicare and Medicaid — grew as employers, seniors and federal and state governments embraced managed care as the solution to the increased cost of health care.

However, HMO enrollment has generally stopped growing in California (as well as other states) in 2000, reflecting changes in employer and consumer preferences and developments in the Medicare and Medi-Cal programs. After a period of low premium increases, employers are now facing several years of significantly higher increases and will be looking at their options. They are asking, "If the HMOs can't hold down utilization and costs, then what good are they?" In addition, all the negative publicity about health plans has made traditional HMO plans a less attractive option. Given that the price differential between HMO plans and other benefit arrangements is not large and that employees seem to prefer the other options, some employers are moving away from HMOs. The change in employee preference is seen in the state and local government employees in the CalPERS group, where PPO enrollment has grown rapidly. (The increase in PPO enrollment also reflects a declining availability of HMO options in some areas, favorable levels of state contribution, and underpricing the amount paid by employees.)

Enrollment in Medicare HMOs has leveled off and may even decline as more HMOs exit certain service areas or leave the program entirely. Seniors want stability in their health insurance; but now they see Medicare plans promising one thing, then changing the rules the next year. In the case of Medi-Cal, HMO enrollment has declined as the overall number of Medi-Cal beneficiaries continues to drop. Many of these people may now be employed, but not necessarily in jobs that provide health benefits.

Some health plan companies have adapted well to these changes and offer a broad portfolio of products and plan designs, including self-insured PPO plans, to employers. United HealthCare and Wellpoint are already there, while PacifiCare has identified this approach as a key element of its future strategy. The elevated stock prices of the first two in 2001 show that investors expect those companies to succeed. Some other companies are still largely dependent on a single line of business or lack the different skill sets and infrastructure to succeed in a changing market.

3. Hospitals push back. As managed care plans gained economic strength in the 1990s, hospitals sought to compete through growth. There is a good deal of emphasis in California on gaining size in order to match the economic power of competi-

tors or suppliers. Hospitals consolidated organizationally into a small number of systems. The concentration is strongest in northern California and in San Diego, less pronounced in the Los Angeles area.

Gaining size, while necessary, has usually been insufficient to enable California hospitals to achieve significant clinical integration. Still, their joint contracting strategies for managed care have enabled them to secure better payments and contract terms. During such negotiations, there has been a good deal of well-publicized brinkmanship, with hospitals publicly invoking termination clauses. After the smoke has cleared, the two sides almost always have reached an agreement and put the best face on the dispute.

Some prominent hospital systems, such as Sutter, Scripps, and Catholic Healthcare West, have insisted on ending some of their risk contracts. In general, hospitals are able to stand up to health plans better than physicians are. Although they are also facing financial pressures, most hospital systems have significant reserves to cushion the loss of revenues from terminating an HMO contract. Few physician organizations maintain the kind of reserves that would allow them to weather the loss of a major contract.

4. Physicians adrift. To participate in the delegated model, physicians formed a variety of organizations in the 1980s and 1990s. Some are closely integrated, with physicians pooling their assets and receiving salaries. Those organizations represent the physicians exclusively in all their managed care contracts. On the other hand, many organizations are much looser, made up of many individual clinics. They were formed largely to accept capitation contracts and give the doctors access to those patients. Clinics may belong to several of these organizations in order to contract with multiple health plans.

In the last two years, there have been numerous reports of physician organizations going bankrupt, sometimes on a spectacular scale. Some of them were built on a financial model that now appears very shaky. In many cases, payments for professional services were inadequate, but the physicians received a generous share of the surplus in the institutional care pool. Now these surpluses are shrinking or disappearing altogether. New state standards for reserves and financial management will likely force some physician organizations to fold or combine with stronger groups.

In some cases, physician organizations are increasingly dependent on hospitals for capital and administrative services. Although hospitals negotiate managed care contracts for the physicians, it is becoming clearer that the hospitals' interests come first and may well be in conflict with those of the physicians.

5. Assets and liability. California's health care markektplace is full of contrasts. On the asset side of the ledger, the state has world-renowned hospitals and practitioners. And, the economic boom of the late 1990s produced an overflowing state treasury, although the current energy crisis has put a strain on the available resources. On the liability side, large numbers of Californians are without insurance, putting an enormous strain on those families, as well as on the state's safety net providers and programs. Based on the penetration of managed care in the state it would appear that market acceptance is very high. Yet there is public antagonism between health plans and providers, and concerns are loudly expressed by consumers and public officials.

Gaining size, while necessary, has usually been insufficient to enable California hospitals to achieve significant clinical integration. Still, their joint contracting strategies for managed care have enabled them to secure better payments and contract terms.

Californians have a long history with HMOs and other managed care plans; at the end of 1999, about 20.4 million were enrolled in an HMO.

I. MARKET REVIEW— THE PLAYERS

This section of the market analysis describes the organizations that are involved in the financing, delivery, and purchasing of health care for Californians and the context in which they operate. Part of that context is payment arrangements and the sharing of risk and authority for care.

Health Plan Companies

Nearly two out of three Californians get their health benefits through managed care organizations called health care service plans. That is the California term for health maintenance organizations (HMOs) as well as certain Blue Cross and Blue Shield health plans. Until 2000, the Department of Corporations regulated HMOs in California. In 1999, the state created a new Department of Managed Health Care to regulate plans licensed under the Knox-Keene law, the state's HMO statute.

The Knox-Keene Act authorizes two different kinds of health care service plans. Full service plans are insurance companies that accept insurance risk for providing comprehensive health benefit plans to subscribers. Note that many of the health plans are also in other health insurance lines of business, such as preferred provider arrangements or indemnity coverage. Some of these plans are subject to an additional system of state oversight through the California Department of Insurance.

Also under the Knox-Keene Act, the state licenses "specialized health care service plans," which provide only a single type of coverage, such as dental care or behavioral health. In a Department of Corporations listing from August 2000, there were 31 licensed dental plans and nine behavioral health plans. These specialized plans (which are not the subject of this report) are often owned by full-service plans that offer a broad portfolio of managed care products.

Exhibit 1 provides an overview of the full-service health plans that are currently licensed in California. They are grouped into three categories. The first are the commercial HMOs, some of which also are involved in Medi-Cal and Medicare plans. About 45 of those HMOs are active in the state. In the second group are the 14 county-organized health plans that contract with the California Department of Health Services to enroll Medi-Cal recipients.

The third group, referred to as "limited license health plans" or "Knox-Keene plans with waivers," includes provider organizations that want to accept capitation risk for services (such as inpatient care) beyond what they are able to provide with their own physicians. Exhibit 1 lists about a dozen such plans, although several are inactive or are going through liquidation. The category was opened up a few years ago, and then closed in the aftermath of some of these licensees going bankrupt. Additional detail about all three categories of plans is provided later in this report.

Californians have a long history with HMOs and other managed care plans; at the end of 1999, about 20.4 million were enrolled in an HMO. Kaiser Permanente is by far the largest health plan in the state, and it has enormous impact on the market. For example, an employer that provides two health plan options in most of the state will often offer Kaiser Permanente side by side with another plan that provides access to most of the non-Permanente doctors and hospitals in the area.

Kaiser had 28% of the HMO enrollment in the state at the end of 1999, with 5.9 million enrollees. Over the years, it has constructed a system of care that is largely self-contained. Kaiser contracts with the Permanente Medical Groups for Northern California and Southern California for the bulk of its patient care, but also contracts with outside physicians. Permanente doctors don't contract with other health plans to see their enrollees. Kaiser operates 28 hospitals around the state. A few years ago, the organization sought to downsize some of its inpatient facilities and make more use of capacity at non-Kaiser hospitals. It has since returned to its earlier strategy of keeping most care within its own facilities.

There are a few much smaller examples of health plans whose provider networks are built around staff physicians or a major group, but most of the newer health plans in California and elsewhere don't have the same notion of group practice and exclusivity. Molina Medical Centers, for example, has clinics in several parts of the state but also contracts with other physicians.

Outside of Kaiser, the predominant model in California is for HMOs to contract with numerous IPAs (independent practice associations) and group practices. Those groups and physicians usually have contracts with lots of managed care plans, so that they can have access to their covered lives. Of course, managing all those contracts creates a significant administrative burden. Blue Cross of California is the second-largest HMO in the state, with about 3.8 million Californians in its insured HMO plans.

Exhibit 1

California HMOs at a Glance

Health Plan (website)	Headquarters	Owner/Manager/ Other Affiliation	Year Certified as an HMO	December 1999 Enrollment	1999 Profit (Loss)	Margin	Historical Notes
Full Service Health Plans							
Aetna U.S. Healthcare of California *www.aetnaushc.com*	San Ramon, CA	Aetna U.S. Healthcare, Hartford, CT and Blue Bell, PA	1981	633,556	9,376,076	0.8%	Acquired Prudential Health Care in 1999
Blue Cross of California *www.bluecrossca.com*	Woodland Hills, CA	Wellpoint Health Networks	1993	3,827,766	3,038,000	4.7%	
Blue Shield of California *www.blueshieldca.com*	San Francisco, CA	California Physicians' Service	1978	2,100,142	16,925,000	0.6%	Organized as California Physicians Service; acquired CareAmerica in 1998
Care 1st Health Plan	Alhambra, CA		1995	222,590	702,633	1.0%	
Cedars-Sinai Provider Plan, LLC	Los Angeles, CA	Cedars-Sinai Medical Center, Los Angeles	1998	-			
Chinese Community Health Plan	San Francisco, CA		1987	5,510	169,367	1.1%	
CIGNA HealthCare of California	Glendale, CA	CIGNA Healthcare, Inc., Hartford, CT	1978	687,261	30,811,791	2.6%	Formerly Roos Loos Health Plan and Equicor
Community Health Group	Chula Vista, CA		1985	75,212			
Community Health Plan	Los Angeles, CA	Los Angeles County Department of Health Services	1985	109,411	7,052,010	7.7%	
Great American Health Plan	San Diego, CA		1995	-			In process of surrendering license as of June 2000
Greater Pacific	San Francisco						License revoked January 2000
Health Plan of the Redwoods *www.hpr.org*	Santa Rosa, CA		1980	87,259	-2,775,015	-1.6%	Also known as Keycare
HealthMax America				-			Applied to surrender license in December 1999. Organized as HMO California
Health Net	Woodland Hills, CA	Health Net (formerly Foundation Health Systems)	1979	1,947,885	94,362,117	2.6%	Merged with Foundation Health of California
Inter Valley Health Plan *www.ivhp.com*	Pomona, CA		1979	67,400	-970,869,	-0.7%	
Kaiser Foundation Health Plan, Inc. *www.ca.kaiserpermanente.org*	Oakland, CA		1977*	5,935,685	67,319,000	0.6%	Kaiser holds a separate license for an HMO called Kaiser Foundation Added Choice, which was licensed in 1988 but has no enrollees now.
Lifeguard, Inc. *www.lifeguard.com*	San Jose, CA		1978	244,351	701,308	0.2%	
Maxicare of California *www.maxicare.com*	Los Angeles, CA		1977	275,100	1,001,820	0.3%	State regulators took control of HMO in May 2001
Molina Medical Centers	Long Beach, CA		1994	165,874	9,453,322	5.1%	
National Med, Inc. *www.nationalhmo.com*	Modesto, CA	Tenet Healthcare Corporation	1985	66,062	-898,484	-0.7%	
Omni Healthcare *www.omnihealthcare.com*	Sacramento, CA	Sutter Health, Sacramento, CA	1985	26,089			
On Lok Senior Health Plan	San Francisco, CA		1999*	828			
One Health Plan *www.onehealthplan.com*	San Jose, CA	Great-West Life Assurance Co., Englewood, CO	1996	68,830	24,984,244	20.3%	

Exhibit 1

California HMOs at a Glance , continued

Health Plan (website)	Headquarters	Owner/Manager/ Other Affiliation	Year Certified as an HMO	December 1999 Enrollment	1999 Profit (Loss)	Margin	Historical Notes
Full Service Health Plans, continued							
PacifiCare of California *www.pacificare.com*	Cypress, CA	PacifiCare Health Systems	1975	2,328,082	259,722,289	4.2%	Acquired FHP which had acquired TakeCare in 1994
Prudential Health Care Plan of California *www.prudential.com/healthcare*	Woodland Hills, CA	Aetna U.S. Healthcare, Hartford, CT and Blue Bell, PA	1990	515,670	-2,955,820	0.4%	Aetna U.S. Healthcare acquired Prudential Health in 1999
SCAN Health Plan *www.scanhealthplan.com*	Long Beach, CA		1984	41,718	5,057,425	1.8%	
Sharp Health Plan *www.sharp.com*	San Diego, CA		1992	83,438	-575,822	0.7%	
Sistemas Medicos Nacionales, S.A. de C.V.	San Diego, CA	Simnsa Health Care, Tijuana, Mexico	2000				
Tower Health Management Organization *www.towerhealth.com*	Long Beach, CA	Cohen Medical Group, Long Beach	1995	119,537	7,951,426	11.2%	Doing business as Tower Health Service
UCSD Health Plan	San Diego, CA	Regents of the University of California	1997	14,826	-3,751,443	-31.4%	Acquired Comp Care Health Plan, a Medi-Cal Primary Care Case Management arrangement, in 1998.
UHP Healthcare *www.uhphealthcare.com*	Los Angeles,, CA	WATTSHealth Foundation	1978	108,125	210,000	0.1%	
United HealthCare *www.uhc.com*	Long Beach, CA	UnitedHealth Group, Minnetonka, MN	1986	134,396	-4,764,655	-2.3%	Formerly MetraHealth HMO, acquired by United HealthCare in 1996. Will transition HMO enrollees to Blue Shield.
Universal Care *www.universalcare.com*	Signal Hill, CA	Howard E. Davis	1985	269,205	677,211	0.3%	Includes enrollees absorbed from Great American Health Plan and Health Max America/HMO California
Valley Health Plan	San Jose, CA	Santa Clara County	1985	43,611			Formed to serve Santa Clara County employees and retirees
VivaHealth (BPS HMO)	Los Angeles, CA		1993	9,828			Acquired by Aetna
Western Health Advantage *www.westernhealth.com*	Sacramento, CA		1997	43,113	-1,926,756	-5.1%	
County Organized Health Systems and Local Initiative Plans							
Alameda Alliance for Health	San Leandro, CA	Alameda County	1995	80,231	13,000,375	14.4%	
Central Coast Alliance for Health	Santa Cruz, CA	Santa Cruz-Monterey Managed Medical Commission		51,889			
Contra Costa Health Plan	Martinez, CA	Contra Costa County Health Services Department	1973	53,164	483,285	0.5%	
Health Plan of San Mateo *www.hpsm.org*	S. San Francisco, CA	San Mateo Health Commission	1998	39,538			
Inland Empire Health Plan *www.iehp.org*	San Bernardino, CA		1996	193,553	2,501,007	1.8%	
Kern Health Systems	Bakersfield, CA		1996	47,350			
LA Care (Local Initiative Health Authority) *www.lacare.org*	Los Angeles, CA	Local Initiative Health Authority for Los Angeles County	1997	622,308	2,177,558	0.4%	

Exhibit 1

California HMOs at a Glance , continued

Health Plan (website)	Headquarters	Owner/Manager/ Other Affiliation	Year Certified as an HMO	December 1999 Enrollment	1999 Profit (Loss)	Margin	Historical Notes
CalOptima	Orange, CA	Orange County Organized Health System					
Partnership Health Plan of California *www.partnershiphp.org*	Suisun City, CA	Solano-Napa Commission on Medical Care		50,777			
San Francisco Health Plan *www.sfhp.com*	San Francisco, CA	San Francisco Health Authority	1996	27,876	1,782,374	5.5%	
San Joaquin County Health (Health Plan of San Joaquin) *www.hpsj.com*	Stockton, CA	San Joaquin County Health Commission	1996	54,381	6,694,573	12.1%	
Santa Barbara Health Initiative	Goleta, CA	Santa Barbara County Special Healthcare Authority					
Santa Clara Family Health Plan	San Jose, CA	Santa Clara County Health Authority	1996	45,645	5,013,811	9.0%	
Ventura County Health Care Plan	Ventura, CA	Ventura County	1996				
Limited License Health Plans							
California Pacific Medical Group	San Francisco, CA	Brown & Toland Medical Group		-			License surrendered in October 1999
Concentrated Care, Inc.	Salinas, CA	Salinas Valley Memorial Healthcare System	1997	9,655	1,177,179	49.2%	
FPA Medical Management of California	San Diego, CA		1996	-			Currently under enforcement action. Formerly known as Family & Senior Care
Heritage Provider Network	Reseda, CA		1997	145,998			
MedPartners Provider Network	Long Beach, CA		1996	-			Currently under enforcement action. Formerly operated as Pioneer Provider Network
Monarch Plan, Inc.	Santa Barbara, CA		1987	-			Surrendered its license in April 1999
Primecare Medical Network	Ontario, CA		1998	123,293			
Priority Plus of California	Fresno, CA		1985	99,767			Formerly Central Valley Health Plan
ProMed Health Care Administrators	Upland, CA		1999	-			
Scripps Clinic Health Plan Services	La Jolla, CA		1999	35,140			
St. Joseph's Provider Network	Stockton, CA	St. Joseph's Regional Health System	1998	25,115	-6,298,956	48.2%	
THIPA Management Consultants	Torrance, CA						License surrendered November 1999

*On Lok Senior Health Services commenced business in 1971, Kaiser in 1955

Source: Author's analysis of HMO annual statements, supplemented by Department of Corporations Health Plan Division, "Public Alpha Report,' June 2000; Department of Corporations, "Health Plan Financial Information," June 2000; Cattaneo & Stroud, Inc., "Table 1: Listing of Plans Reviewed for Inclusion in the March 2000 California Statewide Prepaid Enrollment Study."

How Concentrated Is Your HMO Market?

Here is the percentage of HMO enrollees in the four largest HMOs in each of the following states as of December 1999:

California	69.1%
Colorado	69.0%
Florida	62.6%
Illinois	66.0%
Michigan	57.9%
Minnesota	94.8%
Texas	68.2%

Exhibit 2 shows the market share of the largest health plans in the state as of December 1999. The current roster of California HMOs is the result of two decades of mergers, acquisitions, and a few plan failures. For example, Aetna is now the sixth-largest health plan in the state, having acquired a small California HMO and Prudential Health, one of the largest health plan companies in the nation. Similarly, PacifiCare emerged from a series of transactions involving HMOs known as FHP and TakeCare.

With all the recent consolidations, California HMO enrollment became more concentrated in a smaller number of plans. (See sidebar "How Concentrated Is Your HMO Market?") Concentration was calculated by looking at the percentage of HMO enrollment in the four largest HMOs in a state. In California, 69.1% of all HMO enrollees are in four large HMOs: Kaiser Permanente, Blue Cross, PacifiCare, and Health Net. Most other states are somewhat less concentrated than California with the significant exception of Minnesota, where the four largest HMOs have almost 95% of all HMO enrollees.

The largest California HMOs have their headquarters in the state and, except for Blue Shield, they have significant managed care operations in other states. Some have been pruning back their operations outside of California. For example, Foundation Health, which operates Health Net, the second largest HMO in California, has exited from Colorado, Utah, and New Mexico and has sought buyers for its Florida plan. PacifiCare will transition its Cincinnati-area health plan members to Anthem Blue Cross Blue Shield. Such moves partly reflect the fact that in many of these large deals (for example, when PacifiCare acquired FHP), the surviving plan gained a patchwork quilt of operations, some in far-flung locations where that plan had a weak position in the market.

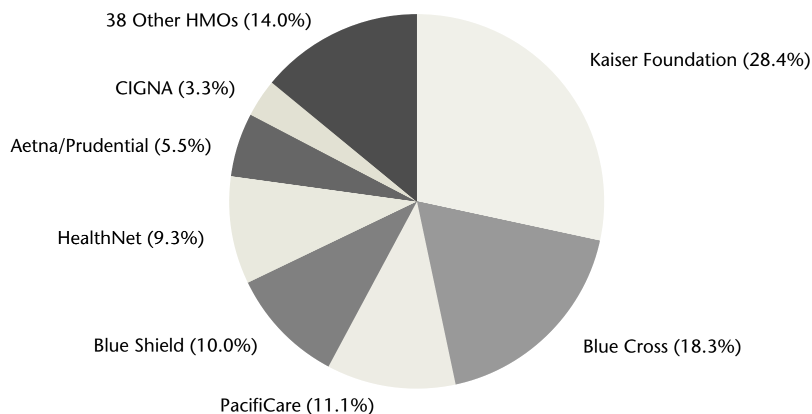
United HealthCare recently announced that it would exit the "traditional" HMO business in California and Nevada. It has also done so in Washington and Oregon. While it de-emphasizes the HMO business, it is focusing more attention on its Uniprise business of managing health plans for large, national employers that often self-fund their benefit plans. In part, the company is responding to the difficulty of being in the HMO business because of increased regulation and bad publicity surrounding HMOs. Of course, succeeding with a strategy of offering a broader portfolio of health care products requires a different skill set, which many California HMOs don't possess.

Others health plan companies have sought to expand into other states. In 2000, Wellpoint Health Networks, the parent company of Blue Cross of California, acquired the Rush-Prudential HMO in Chicago with 241,000 lives. Wellpoint operates through its UniCare affiliate in Illinois, Texas, and other states. It made a run for Blue Cross Blue Shield of Colorado in 1999, but was beat out by Anthem Blue Cross Blue Shield. Wellpoint also operates plans in Georgia and is adding Medicaid plans in Puerto Rico and Oklahoma.

While the largest health plans provide coverage in major portions of the state, some of the health plans focus on local service areas. On the commercial side, Health Plan of the Redwoods operates in the Sonoma County area. The county Medi-Cal plans are all operating in only one or two counties. Note that a few of them are venturing into commercial business on a small scale. San Francisco

Exhibit 2

Market Share of California HMOs, 1999



Source: Author's analysis of HMO annual statements, Report #4. See notes to Exhibit 5 for adjustments made to avoid double counting.

Health Plan participates in PacAdvantage, the small business purchasing pool.

Only a few California HMOs are sponsored by hospital systems. Western Health Advantage in Sacramento is sponsored by the Mercy Healthcare system, which is a member of Catholic Healthcare West. Omni Healthcare, also operating in the Sacramento and Stockton areas, was owned by Sutter Health and the St. Joseph system in Stockton before it sold its membership to Blue Cross in 1999.

What challenges do health plans in California face? Probably the most significant challenge is the need to negotiate the right kind of relationships with those that buy coverage—employers—and with the providers that deliver the care. That means convincing both purchasers and providers that the health plan does add value that is commensurate with the portion of the premium dollar that it holds for administrative costs and profit. Historically, both purchasers and providers have been skeptical about the value that health plans provide in exchange for keeping 10% to 20% of the premium. However, neither one is rushing to form relationships that would cut out the health plan in the middle.

Hospital Systems

Just as health plans have grown larger, hospital systems have emerged and merged as their managers sought to regain economic strength that they lost to HMOs over the years. Ownership and management of hospitals is distributed among a variety of organizations: religious groups, such as the Adventists (with 14 hospitals) and Catholic Healthcare West (47 hospitals); investor-owned groups like Tenet Health (with 44 hospitals) and Columbia-HCA (now known as HCA-The Healthcare Company), with 14 California hospitals); academic health centers within the University of California system (8 hospitals); hospitals owned by counties; and hospitals owned by special districts. There are also different combinations, such as academic health centers or district hospitals that are in joint ventures or management arrangements with companies like Tenet Health. Note that the combinations are fluid — the Daughters of Charity announced in May 2001 that they would withdraw their seven California hospitals from Catholic Healthcare West.

The information presented on hospitals is drawn from databases produced by the Office of Statewide Health Planning and Development for reporting years ending between July 1, 1998 and June 30, 1999. This analysis focuses on acute care hospitals; certain specialty hospitals, such as those that are primarily involved with transitional care or rehabilitation or psychiatric facilities, are not included. Neither are state facilities for persons with developmental disabilities or mental illness or hospitals run by the Department of Veterans of Affairs or by the military at different bases in the state.

Exhibit 3 presents an overview of the largest hospital systems in the state. Two of the nine systems shown here are investor-owned, and one is made up of facilities of the University of California system. The third section of this report presents a more detailed analysis of the inpatient occupancy, payer mix, and profitability of hospitals in the state.

As shown in the exhibit, Catholic Healthcare West and Tenet Health were the largest systems in the state when compared on staffed beds, inpatient days, or net patient revenues. In 1999 Catholic Healthcare West had nearly 10,000 beds in 47 hospitals across the state and reported $3.2 billion in net patient revenues. The Tenet hospitals were second when measured by revenues, with $2.8 billion in 1999, followed closely by the 28 Kaiser Foundation hospitals. The University of California hospitals reported 4.7 million outpatient visits, more than Catholic Healthcare West (4.3 million) and Sutter Health (4.2 million).

Of the nine systems listed here, seven had profits during the reporting period. Tenet Health had the highest margin, more than 10% of net patient revenue. The data show that high occupancy is no guarantee of profit; Tenet had the lowest inpatient occupancy rate of the group. Columbia had higher occupancy rates but lost almost $66 million.

While the hospitals are grouped for this analysis according to their ownership, there are no good measures of the extent to which the hospitals operate as a system. In a hospital integration, efficiencies are achieved by removing levels of administration and centralizing functions. In a typical example, a chief financial officer is appointed for the system and that position is no longer found at each hospital. Functions such as human resources, procurement, and building management are centralized. Until recently, hospitals brought together typically would (as they say in the Midwest) have all their silos painted the same. For example, in the mid-1990s, when Columbia/HCA was in its acquisition phase, it put the Columbia brand and name on all of the hospitals it acquired. Later, as the company attempted to present a kinder and gentler image, it underplayed evidence of ownership. (In fact, the company changed its name in 2000 to HCA-The Healthcare Company.)

It is especially hard to find any measure of clinical integration within merged systems. If eight hospitals—six of them with open-heart surgery units—

What challenges do health plans in California face? Probably the most significant challenge is the need to negotiate the right kind of relationships with those that buy coverage—employers—and with the providers that deliver the care. That means convincing both purchasers and providers that the health plan does add value that is commensurate with the portion of the premium dollar that it holds for administrative costs and profit.

Exhibit 3

Largest California Hospital Systems at a Glance

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
Adventist	**2,029**	**463,739**	**63.0%**	**1,732,688**	**755,998,292**	**29,752,051**

www.ah-sc.com/ —Locations: (14)— Central Valley General Hospital (Hanford), Frank R Howard Memorial Hospital (Willits), Glendale Adventist Medical Center, Hanford Community Hospital, Paradise Valley Hospital (National City), Redbud Community Hospital (Clearlake), Selma District Hospital, Simi Valley Hospital - Sycamore (Simi Valley), Sonora Community Hospital, South Coast Medical Center (South Laguna), St. Helena Hospital & Health Center (Deer Park), Ukiah Valley Medical Center, White Memorial Medical Center (Los Angeles) and San Joaquin Community Hospital (Bakersfield)

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
Catholic Healthcare West	**9,676**	**2,012,708**	**64.1%**	**4,316,430**	**3,235,855,548**	**84,496,337**

www.chwhealth.com/ — Locations (47) — Bakersfield Memorial Hospital, California Hospital Medical Center (Los Angeles), Community Hospital of San Bernardino, Dominican Santa Cruz Hospital - Soquel, (Santa Cruz), Glendale Memorial Hospital, La Palma Intercommunity Hospital, Long Beach Community Medical Center, Marian Medical Center (Santa Maria), Mark Twain St. Joseph's Hospital (San Andreas), Martin Luther Hospital Medical Center (Anaheim), Mercy General Hospital, Mercy Hospital & Health Services - Merced, Mercy Hospital - Bakersfield, Mercy Hospital - Folsom, Mercy Hospital of Mt. Shasta, CHW, Mercy Medical Center-Redding, Mercy San Juan Hospital (Carmichael), Mercy Westside Hospital (Taft), Methodist Hospital of Sacramento, Northridge Hospital Medical Center, Northridge Hospital Medical Center Sherman -Van Nuys, O'Connor Hospital (San Jose), Oak Valley District Hospital (Oakdale), Robert F. Kennedy Medical Center (Hawthorne), San Gabriel Valley Medical Center, Sequoia Hospital (Redwood City), Seton Medical Center (Daly City), Seton Medical Center - Coastside (Moss Beach), Sierra Nevada Memorial Hospital (Grass Valley), St. Bernardine Medical Center (San Bernardino), St. Dominic's Hospital (Manteca), St. Elizabeth Community Hospital (Red Bluff), St. Francis Medical Center (Lynwood), St. Francis Medical Center-Santa Barbara, St. Francis Memorial Hospital (San Francisco), St. John's Pleasant Valley Hospital (Camarillo), St. John's Regional Medical Center (Oxnard), St. Joseph's Behavioral Health Center (Stockton), St. Joseph's Medical Center of Stockton, St. Louise Health Center (Gilroy), St. Mary Medical Center (Long Beach), St. Mary's Medical Center - San Francisco, St. Vincent Medical Center (Los Angeles) and Woodland Memorial Hospital.

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
HCA – The Healthcare Company	**1,370**	**406,235**	**80.2%**	**790,341**	**756,306,226**	**(65,697,771)**

www.hcahealthcare.com/ — Locations (14) — Chino Valley Medical Center (Chino) Good Samaritan Hospital (San Jose), Las Encinas Hospital (Pasadena), South Valley Hospital (Gilroy), West Hills Medical Center, Good Samaritan Hospital-Bakersfield, Huntington Beach Hospital & Medical Center, Los Robles Regional Medical Center (Thousand Oaks), Palm Drive Hospital (Sebastopol), San Jose Medical Center, West Anaheim Medical Center (Anaheim), San Leandro Hospital and Columbia Mission Bay Hospital (San Diego)

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
Kaiser Foundation	**5,840**	**1,187,470**	**55.7%**	**509,176**	**2,780,391,289**	**(216,289,255)**

www.kaiserpermanente.org/locations/california/ — Locations (28) — Kaiser Foundation Hospitals in Anaheim, Bellflower, Fontana, Fresno, Geary (San Francisco), Harbor City, Kaiser, Hayward, Oakland Campus, Panorama City, Redwood City, Riverside, Sacramento, San Diego, San Rafael, Santa Clara, Santa Rosa, Santa Teresa Community Hospital (San Jose), South Sacramento (Sacramento), South San Francisco, Sunset (Los Angeles), Walnut Creek, West Los Angeles (Los Angeles), Woodland Hills, Vallejo, Baldwin Park and Chemical Dependency Program (Fontana)

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
St. Joseph	**1,924**	**449,133**	**65.0%**	**889,823**	**976,406,270**	**64,928,277**

www.stjhs.org/ — Locations (10) — Mission Hospital Regional Medical Center (Mission Viejo), North Coast Health Care Center-Sotoyom (Santa Rosa), Petaluma Valley Hospital (Petaluma), Queen of the Valley Hospital (Napa), Redwood Memorial Hospital (Fortuna) Santa Rosa Memorial Hospital, St. Joseph Hospital - Eureka, St. Joseph Hospital - Orange, St. Jude Medical Center (Fullerton) and St. Mary Regional Medical Center (Apple Valley)

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
Scripps	**1,129**	**286,221**	**69.5%**	**440,131**	**541,437,344**	**6,674,867**

www.scrippshealth.org/— Locations (6) — Green Hospital Of Scripps Clinic (La Jolla), Scripps Hospital - East County (El Cajon), Scripps Memorial Hospital - Chula Vista, Scripps Memorial Hospital - Encinitas, Scripps Memorial Hospital - La Jolla and Scripps Mercy Hospital (San Diego)

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
Sharp	**1,272**	**408,216**	**87.9%**	**762,595**	**559,668,343**	**23,462,581**

www.sharp.com/ — Locations (8) — Grossmont Hospital (La Mesa), Sharp Cabrillo Hospital (San Diego), Sharp Chula Vista Medical Center, Sharp Coronado Hospital & Healthcare Center, Sharp Healthcare Murrieta, Sharp Mary Birch Hospital For Women (San Diego) and Sharp Memorial Hospital (San Diego)

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
Sutter	**4,478**	**1,100,115**	**67.4%**	**4,167,600**	**2,215,274,141**	**111,332,594**

www.sutterhealth.org/ — Locations (24) — Alta Bates Medical Center (Berkeley), California Pacific Medical Center (San Francisco), Dameron Hospital (Stockton) Eden Medical Center (Castro Valley), El Camino Hospital (Mountain View), Laurel Grove Hospital (Castro Valley), Marin General Hospital (San Rafael), Memorial Hospital Modesto, Mills-Peninsula Medical Center (Burlingame), Novato Community Hospital, Sutter Amador Hospital (Jackson), Sutter Auburn Faith Hospital, Sutter Center For Psychiatry (Sacramento), Sutter Coast Hospital (Crescent City) Sutter Davis Hospital, Sutter Delta Medical Center (Antioch), Sutter General Hospital (Sacramento), Sutter Lakeside Hospital (Lakeport), Sutter Maternity & Surgery Center (Santa Cruz), Sutter Medical Center of Santa Rosa, Sutter Memorial Hospital (Sacramento), Sutter Merced Medical Center, Sutter Roseville Medical Center, Sutter Solano Medical Center (Vallejo) and Sutter Tracy Community Hospital.

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
Tenet	**8,149**	**1,535,884**	**52.5%**	**2,980,051**	**2,837,280,814**	**336,105,143**

www.tenethealth.com/ — Locations (44) — Alvarado Hospital Medical Center (San Diego), Brotman Medical Center (Culver City), Centinela Hospital Medical Center (Inglewood), Century City Hospital (Los Angeles), Chapman Medical Center (Orange), Coastal Communities Hospital (Santa Ana), Community & Mission Hospitals-Huntington Park, Community Hospital of Los Gatos, Desert Regional Medical Center (Palm Springs), Doctors Hospital of Manteca, Doctors Medical Center, Doctors Medical Center - Pinole, Doctors Medical Center - San Pablo, Encino Tarzana Regional Medical Center Encino, Encino Tarzana Regional Medical Center - Tarzana, Fountain Valley Regional Hospital & Medical Center -Euclid (Fountain Valley), Garden Grove Hosp & Medical Center, Garden Grove Garfield Medical Center, Monterey Park Greater El Monte Community Hospital, South El Monte Irvine Medical Center (Irvine), John F. Kennedy Memorial Hospital (Indio), Lakewood Regional Medical Center - South, Los Alamitos Medical Center, Midway Hospital Medical Center (Los Angeles), Monterey Park Hospital, North Hollywood Medical Center, Placentia-Linda Community Hospital (Placentia), Queen of Angels-Hollywood Presbyterian Medical Center (Los Angeles), Rancho Springs Medical Center (Murrieta), Redding Medical Center, San Diego Rehabilitation Institute, San Dimas Community Hospital, San Ramon Regional Medical Center, Santa Ana Hospital Medical Center, Sierra Vista Regional Medical Center (San Luis Obispo), St. Luke Medical Center (Pasadena), Suburban Medical Center (Paramount) Tustin Rehabilitation Hospital, Twin Cities Community Hospital (Templeton), University of Southern California University Hospital (Los Angeles), Valley Community Hospital (Santa Maria), Western Medical Center-Anaheim, Western Medical Center-Santa Ana and Whittier Hospital Medical Center

System	Staffed Beds	Inpatient Days	Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
University of California	**3,065**	**726,179**	**67.9%**	**4,705,343**	**2,514,428,870**	**219,009,079**

Locations (8) — Medical Center at the University of California-San Francisco. Santa Monica - UCLA Medical Center, University of California, UCLA Medical Center, Los Angeles, UCLA Neuropsychiatric Hospital (Los Angeles), UCSF Mt, Zion (San Francisco), University of California-San Diego Medical Center, University of California Davis Medical Center, Sacramento, University of California Irvine Medical Center (Orange)

Source: Author's analysis of Hospital 99-1.xls worksheet data prepared by Office of Statewide Health Policy and Development. Data are for fiscal years ending between July 1, 1998 and June 30, 1999. System affiliations reflect arrangements in 1999.

came together as a system, chances were good that there would be six open-heart surgery units operating years later. Part of the challenge is accommodating physicians who practice at the hospitals: If open-heart surgeries are consolidated at the downtown hospital, the doctors and patients from the south suburban hospital may follow—or they may move over to the south suburban location of a competing system.

Hospital system building is difficult work. Some prominent attempts at system building, such as Stanford and the University of California-San Francisco, have crashed spectacularly. In other parts of the country, some of the super-systems also unraveled in 2000.

One proxy measure of integration may be how effective the system is in its managed care negotiations. After all, one of the goals is to gain leverage in contracting. It appears that some systems in California have been able to use their size to secure more favorable contracts. First, they sought to get health plans to accept the notion of contracting with all hospitals in the system, not picking and choosing. Often that has not been controversial. Health plans seem less interested now in being selective about hospital contracting and trying to drive market share to a smaller group of hospitals in exchange for more favorable rates. The message from their marketing people is that employers want access to all the hospitals.

Next, systems pushed for more favorable payment rates, making the argument that a health plan has to have this group of hospitals in its network. "Without those hospitals, you can't sell any premium." Given the level of health plan competition for market share, that argument carries some weight. Still, it has been very common for hospitals in California to play one last card in the negotiations, namely, invoking a termination clause, wherein the hospitals say they are willing to give up the thousands of admissions they get through this contract if they can't get better terms. Not only do they announce that they will terminate, but some have done it in very public ways, issuing news releases and placing ads in newspapers. During 2000, several negotiations went down to the wire, PacifiCare agreed to a multi-year contract with all Sutter Health facilities in Northern California in December 2000. Catholic Healthcare West went through lengthy negotiations before concluding a new deal with Blue Cross of California in 2000. While the terms have not been disclosed, the hospitals systems are understood to have successfully "pushed back" on the health plans.

Besides revenue pressures from health plans and the Medicare and Medicaid programs, many California hospitals face a large cost in the next years to bring their facilities up to the seismic safety standards that will be phased in over the next 30 years. The California Healthcare Association has reported that about three-fourths of the hospital buildings in the state fail to meet either the structural or non-structural standards that were imposed in 1994 in SB 1953. Hospitals were required to submit detailed compliance plans for meeting the standards by January of 2001. Many hospitals will have to perform bracing work before January of 2002. Then they have until 2008 to make their buildings strong enough to sustain a major earthquake. An additional set of standards takes effect in 2030. How much this will cost is anyone's guess; some estimates are in the range of $5 to $6 billion.

Hospitals that seek to finance rebuilding for seismic standard compliance may run into difficulties. Bond rating houses have been skeptical of the financial future of hospitals and have downgraded the ratings on some hospital bonds offered recently. California hospitals, in particular, have seen their bond ratings downgraded because of concerns over their financial prospects. Hospitals have sought significant relief from the standards, but have only received some modest concessions so far. They would like to get additional years to come into compliance and perhaps some state assistance with bonding or other financing schemes.

Physician Organizations

Health plans in California typically contract with groups of physicians — either integrated medical groups or independent practice associations (IPA). Under this model, an enrollee of the health plan chooses a primary care physician and a physician group. The health plan, in turn, pays a monthly capitated payment per enrollee to the physician group. The physician group is delegated the financial risk and responsibility for delivering primary, specialty, and ancillary care. If the costs of these professional services for all enrollees using that group are greater than the capitation payment, the physician group loses money. Physician groups generally do not assume risk for hospital costs, but they may share in the surplus that is left if inpatient utilization is lower than budgeted. The risk for pharmacy costs generally is assumed by the health plan or is shared by the physician group and health plan. In addition, the health plan usually delegates to the physician group the responsibility for administrative functions including utilization review and quality assurance activities.

There are several common models of how physicians organize in California.

Who Speaks for Providers in California?

· The **California Medical Association** (www.cmanet.org), representing more than 34,000 physicians, promotes the science and art of medicine and is dedicated to the care and well-being of patients. The CMA actively represents physicians in legislative and litigation matters.

· The **California Healthcare Association** (www.calhealth.org) based in Sacramento, represents the interests of nearly 600 hospital, health system, and physician group members, and more than 200 affiliate and personal members. It was a state hospital association and expanded to include physician organizations. CHA has three corporate members: the Hospital Council of Northern and Central California, the Healthcare Association of Southern California, and the Healthcare Association of San Diego and Imperial Counties. CHA provides state and federal representation in legislative and regulatory arenas.

· The **National IPA Coalition** (NIPAC) (www.nipac.org) is a resource for physician organizations that manage risk contracts. It provides information, contacts, technical support, and advocacy. Headquartered in Oakland, NIPAC has 300 members in 33 states.

· The **Hospital Council of Northern and Central California** (www.hcncc.org) is a nonprofit hospital and health system trade association representing more than 200 hospitals. Established in 1961, the organization provides legislative and regulatory advocacy. Membership ranges from rural hospitals to large urban medical centers representing more than 38,000 licensed beds.

· Established in 1923, the **Healthcare Association of Southern California** (www.hasc.org) serves as a forum for three councils: Hospitals and Health Facilities Council, California Physician Groups Council, and Integrated Systems Council. The association provides technical and information services, as well as advocacy.

· The **Integrated Healthcare Association** (www.iha.org) is a leadership group with members from health plans, physician groups, and health systems and at large representation from academic, purchaser, pharmaceutical industry, and consumer interests. The group is involved in policy development and special projects around integrated health care and managed care.

Largest Physician Organizations

Based on the Cattaneo & Stroud reports, the top ten physician organizations as of April 2000 are listed below.

1. KPC Global Care
2. Sutter Health
3. St. Joseph Health System
4. Phycor, Inc
5. Primed Management Consulting
6. Catholic Healthcare West
7. Brown and Toland
8. Sharp Healthcare
9. Healthcare Partners
10. Tenet Healthcare Corporation

Medical Group. The integrated medical group refers to a traditional group practice structure. Physicians are either employees or partners of the group with some vested interest in it. The group may occupy one or several sites or facilities. Physicians belong to a single medical group, which contracts exclusively on their behalf. Some medical groups include an additional IPA panel that wraps around the group, extending its reach. Medical group examples include Healthcare Partners; Camino Medical Group; San Jose Medical Group; Bright Medical Associates; and High Desert Medical Group.

Independent Practice Association. The IPA is a legal entity for independent physician members who practice in their own private offices in the community. These physicians contract with the IPA, and the IPA contracts with one or more health plans. Physicians typically contract with more than one IPA; a particular IPA may account for only a small percentage of their patients. Prominent California IPAs include Brown and Toland Medical Group, Inc; Alta Bates Medical Group, Inc; Affinity Medical Group, Inc; and Hill Physicians Medical Group, Inc. In many instances, the IPA contracts with an MSO, a separate company, to provide management services.

Kaiser Permanente. The Kaiser Permanente health plans in the state, Southern California and Northern California, have generally combined their operations. However, there are still two Permanente Medical Groups. In Southern California, the Kaiser Foundation Health Plan enrolls members and contracts with the Southern California Permanente Medical Group to provide medical and health services to plan members. In Northern California, the Kaiser Foundation Health Plan contracts with the Permanente Medical Group. Southern California Permanente is organized as a partnership, while Northern California Permanente is organized as a professional corporation.

Management Service Organization. MSOs promise to provide efficiencies to physician groups through administrative services including billing, collection, and administrative support. Some MSOs offer quality management, utilization management, provider relations, member services, and claims processing. The MSO may or may not contract with the health plan. There are MSOs that purchase the physician's practice. In all other cases, the MSO administers the IPA or medical group. Management service organization examples: Primed Management Consulting, Inc. (Hill Physicians); Brown and Toland Physician Services Organization; and Premier Practice Management, Inc.

Foundation Model. California law generally bars the corporate practice of medicine, but authorizes other structures in which a hospital can have close ties to physicians. The foundation integrated system is one in which a hospital creates a foundation under California statute, and that foundation purchases a physician practice. The foundation board has balanced representation between physicians and the hospital. The hospital may provide capital to the physicians through the foundation. There also is a foundation model with a non-profit foundation that contracts for services with a medical group and hospital. Foundation model examples: John Muir Diablo Health Network Foundation; Palo Alto Medical Foundation; Adventist Health Southern California Medical Foundation; Facey Medical Foundation.

Knox-Keene Limited Licensees. The California Department of Corporations issued limited licenses to provider groups seeking to negotiate full-risk capitation contracts with health plans. Some of these entities have failed, leaving enormous losses and disruption in their wake. As a result new requests for these limited licenses were placed on hold in 1999. As of June 15, 2000, there were nine limited license plans in California: Cedars-Sinai Medical Center; FPA Medical Management (filed for bankruptcy in July 1998); Heritage Provider Network Inc.; Primecare Medical; Priority Plus of California; Scripps Clinic Health Plan Service; St. Joseph's; Concentrated Care; and ProMed Health.

According to data from Grant Cattaneo, there are 363 organized physician groups in California. Although this number is large, the top ten organizations and Kaiser Permanente hold contracts to provide care for almost 80% of managed care enrollees.

As discussed in the third major section of this report, physician organizations in California are very fluid. In the months between the first draft of this report and its publication, there were about a dozen announcements of medical groups that were going bankrupt or otherwise getting out of business. For example, the 600-physician San Mateo IPA announced in late August 2000 that it would cease operations. In November 2000, KPC Medical Management and its related companies closed the doors of 38 clinics and filed for bankruptcy. That doesn't necessarily mean that the physicians in those groups are out of work. In many cases, they move back and forth between different groups. Or they get new contracts with the same health plans by affiliating with a different organization.

Health Plan-Provider Relations: Capitation and Delegation

Payment systems are fundamental to the relationship between health plans and providers. The different options stretch across a wide continuum. At one end, a provider can be paid for every unit of service provided. At the other end, the health plan can pay a fixed amount that covers all necessary care. Many California HMOs make extensive use of capitation, paying providers a fixed amount per-member-per-month to provide all care or certain services to enrollees who select those providers. If as a group those patients use less care than anticipated, the providers will keep a surplus at the end of the year. If, however, those patients consume more care, then, subject to certain limits, the providers may lose money. The next section of the report presents some data about the extent to which the largest HMOs used capitation arrangements in 1999.

Seen in its best light, capitation offers providers the autonomy to make decisions about care, knowing that they have to be cognizant of budgetary limits. When viewed less positively, capitation gives the provider an incentive to withhold care, even if it is appropriate.

In general, California law only permits providers to accept risk for the services they can provide. Thus, a group of doctors can accept capitation risk for professional services but generally not for inpatient hospital care. Provider groups that wanted to take on additional risk were given the option in 1997 and 1998 of seeking a limited Knox-Keene license, as described above.

In California, capitation is often coupled with delegation; that is, the health plan delegates significant functions to the provider organization. That may include credentialing of physicians, payment of claims, and collection of data. Since these are the functions usually performed by the health plan, what role does that leave for an HMO? In effect, the health plan performs a marketing function for the provider organization, bringing patients to the physicians.

When this model works, it usually involves the physician organization contracting with multiple health plans so as to build up a patient base over which it can spread its administrative costs while blending its risk pool and premium revenues. Thus, most of the physician groups contract with most health plans, Kaiser being the significant exception. This overlap of provider networks makes it harder for the health plans to distinguish themselves in the market, since it may seem to purchasers that all the physicians and hospitals are in all of the health plan networks.

Because the health plan delegates these functions to provider groups, it doesn't maintain and operate the kind of administrative infrastructure it would need to perform them. That created a significant problem when two large provider organizations, FPA and MedPartners, went bankrupt in 1998 and 1999, respectively. The health plans needed to scramble to pay claims and contract with the providers to maintain their networks.

The way capitation works is more complex than it might seem on the surface. A health plan may set aside different parts of the capitation dollar in a series of pools. One pool pays for physician services while another pays for institutional care, including inpatient hospital stays. Other pools pay for prescription drugs and out-of-area services. If there is a surplus in the institutional pool, that would usually mean that the physicians were careful about admitting patients for hospital care and managing that care. In appreciation, the contract would give the physicians a share of the surplus in the institutional care pool.

According to some consultants, the amount of money in the professional service pool has been barely enough in good years to compensate the physicians. Sharing in the institutional pool surplus has been critical to the financial success of the physicians. However, as some hospitals ended their capitation arrangements or as payments for hospital care increased, the institutional pool dried up and so did the opportunity of physicians to draw money from that pool.

Capitation, in theory, creates incentives for physicians to practice conservatively and to emphasize preventive care. But capitation can also create other incentives. For example, what if a health plan has negotiated provider contracts in which it pays providers a flat amount per enrollee based on a percent of the premium collected? If competition from other health plans and other forces are holding down premium increases, the health plan may take a path of less resistance and sell the coverage for a lower price. The health plan will feel some of the impact of lower revenues. The provider was not involved in the sale but will soon see that the negotiated percentage of premium revenues may not be adequate to provide the level of care expected.

In 1999 and 2000, physician groups and hospitals felt the negative impacts of capitation, and there has been important movement away from capitation and delegation in California. First, several major hospital systems have given notice to HMOs that they will no longer enter into full-risk arrangements. Physician groups are trying to limit their risk, for example pulling out prescription drugs into a separate arrangement in which the plan and

Distribution of Physician Groups by Type

Group Practice
Kaiser 2 groups
36.7% of enrollment

Other 74 groups
18.9% of enrollment

IPAs 240 groups
33.3% of enrollment

Foundations/Community Clinics
36 groups
8.6% of enrollment

Miscellaneous (includes University of California)
11 groups
2.6% of enrollment

Source: Cattaneo & Stroud, Inc., 2000

What is Capitation?

The goal of capitation is for the provider to have a financial stake in using care appropriately. Under capitation, the HMO pays a fixed amount to a network of physicians or other provider organization each month for each member that selects that network. The provider group, in turn, is responsible for managing that payment so that it covers the costs of care regardless of the level of utilization of those patients.

Depending on the size of the provider network and the inclination of the health plan, the capitation payment and the providers' risk may be limited to professional services, namely primary care and certain specialty referrals and outpatient procedures. In other cases, health plans and providers may choose to negotiate a global capitation, under which the provider organization receives a larger payment but accepts financial responsibility for almost all care, including inpatient hospitalizations, specialty referrals and pharmacy benefits.

physicians share risk. While some are saying that this decision is a matter of principle, it appears that providers were much happier with capitation when they were making money in those arrangements. As can be seen in the second section of the report, there has been very little new money coming into the system in the form of premiums. That means that there is no new money to put in the capitation pools.

Second, some health plans have hinted strongly that they intend to "de-delegate" and assume some of the functions that provider groups have performed. Among them are national health plan companies, such as CIGNA and Aetna U.S. Healthcare, for whom California presents an exception to their regular ways of doing business. They would have much of the infrastructure needed to perform functions that are now delegated. Other health plans, including PacifiCare, would have to make a significant investment to support that kind of change.

What is the future direction of physician payment in California? One possibility is seen in Minnesota where HMO and PPO enrollment is high but capitation is not widely used. The current trend is for health plans and providers to negotiate shared risk arrangements based on budgets or performance targets. Both health plan and provider share in the downside risk and the potential upside profit rather than the provider assuming most of the risk. The parties negotiate a budget, expressed as a per-member-per-month amount. If more is spent, the providers and the health plan share in the loss. Similarly, if spending is less than budgeted, both share in the surplus.

Physicians, or at least the organized medical community, would probably identify money and physician autonomy as their biggest challenges for the future. In 1999 and 2000, the California Medical Association (CMA) released reports, later disputed by the HMO industry and others, predicting a massive wave of failures for physician organizations in the future. In its view, the problem is the failure of health plans to set capitation rates that are adequate to pay for care and would keep up with the increased cost of providing care. But various observers and associations questioned the CMA's research and concluded that the sky was not falling. They say that if some IPAs are in financial distress, some of the blame belongs on the shoulders of the IPA doctors or administrators. If payment rates are inadequate, they shouldn't accept the contract, even if it means possibly losing access to patients. The physicians respond that the health plan market has become concentrated enough to become an oligopoly, with a few health plans controlling access to a very large portion of the patients.

Or consider two points that were expressed in several interviews. First, payment arrangements vary widely across the state, not necessarily for clear reasons. Of the hundreds of IPAs and medical groups in California, some are much better paid than others. Some of the differential may be a function of size or historic payment arrangements. Or it may be that the providers have demonstrated that they practice efficiently and are well managed, creating value that the health plan will reward. Actuaries and others noted that physician groups in Southern California are often paid much less than their counterparts in the northern part of the state.

Second, good management makes a significant difference in whether physician organizations succeed or fail. Of the physician organizations that have failed recently, some were among the best paid and some were among the worst paid. Similarly, of the physician groups that seem to be doing well even in difficult times, some are paid more and some are paid less. The point here is not that groups fail because they are underpaid, but that some groups fail because of poor management.

Purchasers

The conflicts between health plans and providers are well publicized. What is not widely seen is the role of purchasers. In the end, health plans that try to contain costs by limiting benefits are acting on behalf of the purchaser.

Public and private purchasers have played a crucial role in shaping health care organizations in California. Large public and private employers chose to contract with HMOs in the 1980s and early 1990s and helped create the HMO market of today. Like hospitals and physicians, California employers, both private and public, have sought to bulk up and use group purchasing in order to exert leverage in their negotiations with health plans. Even when they began to move beyond price to try to influence health plan performance in other ways, they were still relating to the health plans. In the last few years, they have begun initiatives to influence the quality of health care delivered by physicians and hospitals.

Descriptions of two key players follow: the state's Public Employee Retirement System, known as PERS or CalPERS, and the Pacific Business Group on Health. In the second section of the report, some of the state's initiatives in the Medi-Cal program are addressed.

Public Employee Retirement System. PERS (or CalPERS) is governed by a 13-member board that includes six elected from enrollees, including retirees. State and local officials make up the rest of the board.

In 2000, PERS arranged coverage for 1.1 million people working for the state and for some 1,300 other public agencies, large and small. It acts as a purchasing coalition for those public agencies. About 41% of the members are from those agencies and the rest are active or retired state employees. More than 100 school districts participate, as do some small counties and cities.

CalPERS will offer 10 California HMOs in 2001 as well as two preferred provider plans (PPOs). Some of the HMOs are regional players and are only available in limited parts of the state. The HMOs are insured plans, while the PPOs, called PERSCare and PERSChoice, are self-funded. Blue Cross provides administrative services to the PPOs, but does not sell an HMO product. PERS also manages association benefit plans for groups such as highway patrolmen and correctional officers.

As shown in *Exhibit 4,* there were just under 1 million lives in the active plan at the beginning of 2000, up from 882,000 in 1995. Four out of five enrollees were in HMOs, while 16% were in the two PPOs. Kaiser Permanente is the largest HMO for PERS, with 325,000 lives from the active plan. When Health Net and PacifiCare are added in, those three plans have about two-thirds of the active PERS enrollees. There used to be more HMOs contracting with PERS, as many as 18 at one point. In the 1980s, PERS would contract with almost any willing health plan.

Although it started from a small base, enrollment in the PPOs has increased rapidly in the past two years. Enrollment in PERSChoice increased by 47% in 1999 and passed 100,000 lives. This rapid growth may be partly explained by increased interest in PPO plans, which provide for self-referral to specialists and are seen as less restrictive. In addition, some HMOs have withdrawn from counties in rural areas, leaving public employees with fewer options there. And, as will be seen later, the pricing and the amount contributed by employees has compared favorably to the cost of joining an HMO.

PERS has been closely involved with state initiatives to promote the dissemination of quality information and provides employees with HEDIS report cards and enrollee satisfaction survey results at open-enrollment time. The report cards provide data at the health plan level. A goal for PERS is to provide information at the provider group level.

Information about premium trends for PERS plans is presented in the second section of this report. With its enormous buying power, PERS did very well through most of the 1990s and negotiated very low premium increases. However, it is now seeing much larger increases in bids from HMOs and in the cost of its self-funded PPO plans. To address part of that problem, management proposed some modest increases in office visit and prescription co-payments. The PERS board rejected that plan in 2000. Some of the employee members of the board thought that the Legislature could solve the problem by increasing the amount that the state contributes toward the benefit plans, but that did not happen.

For 2002, California PERS will raise the premiums of the PPO plans by an average of 17%. HMO rates, on average, will increase by only 6%, compared to 9.2% for the 2001 plan year. However, that lower increase is offset by increases in co-payments for office visits and some prescription drugs.

PERS is considering different models of health care purchasing as well. It engaged consultants to look at the possibility of contracting directly with provider organizations and bypassing the managed care organizations. One model being looked at is direct contracting between provider organizations and employers, as used by the Buyers HealthCare Action Group (BHCAG), a coalition of large employers in Minnesota. (The term "direct contracting" is employed in two different ways in California. It is used to describe employers buying health services from provider organizations, without a health plan in between. It is also used as the opposite of the delegated model, that is, health plans contract directly with individual physicians and clinics, and not through IPAs.)

The BHCAG model involves employers contracting with providers in more than a dozen "care systems" in the Minneapolis-St. Paul area. The benefit plan is known as Choice Plus. The care systems set their own per-member-per-month price, bidding an amount they project will be needed to provide comprehensive benefits to an average enrollee. However, if they set their price too high, they can lose market share to a lower-priced network. The employers self-fund the benefit plans, and many still offer other HMO or PPO benefit plan options. A third-party administrator and other firms provide the administrative services. A significant element of the model is that primary care physicians can only be part of one care system.

It should be noted that Minnesota providers are somewhat ambivalent about BHCAG and Choice Plus. On the one hand, they praise Choice Plus for providing them with much more timely data

Although it started from a small base, enrollment in the PPOs has increased rapidly in the past two years. Enrollment in PERSChoice increased by 47% in 1999 and passed 100,000 lives.

about patient utilization than they receive from the local HMOs. They also like setting their own prices and being evaluated (and rewarded) based on their performance, not on the average results of all the physicians in an HMO network. At the same time, physicians believe it is burdensome to comply with some of the requirements of Choice Plus, especially since the number of covered lives that most care systems receive is relatively small. Another challenge is that maintaining cohesion in a purchasing alliance is never easy, especially when an employer sees that the demographics of its employee population might gain a better price than what the coalition can deliver.

How serious is PERS about moving to some sort of care system or direct contracting model? It has made a sizable investment in studying the issue and is motivated to consider its options. Still, there was a lot of skepticism from a variety of people who think that the goal here is to press health plans to hold down premium increases. Other observers question the ability of California provider organizations to participate in a care system model, although it appears that many of them are much more experienced in similar arrangements than their Minnesota counterparts were when they began to participate in Choice Plus.

Pacific Business Group on Health. One of the most prominent employer purchasing coalitions in the county is the Pacific Business Group on Health (PBGH), which has its headquarters in San Francisco. The coalition counts 35 large employers among its members, representing almost 3 million employees, retirees, and dependents.

The coalition is best known for its joint purchasing alliance, a subset of the employer members. In 2000, the purchasing alliance bought benefits for nearly 400,000 lives at 20 large corporations. During the late 1990s, the alliance was very successful in holding down premiums at the 11 or so HMOs with which it contracted, and even got reductions in some years. For 2000, however, the average increase was about 10%.

Exhibit 4

Enrollment in CalPERS Health Plan Options: Active and Retiree Enrollment in Basic Plans, Total Covered Lives

Health Plan	1996	1996 Share	1997	1998	1999	2000	1999-2000 Change	2000 Share
Aetna U.S. Healthcare	23,609	2.7%	24,945	27,807	28,474	31,124	9.3%	3.1%
Blue Shield HMO	31,267	3.5%	37,508	42,746	45,317	44,766	-1.2%	4.5%
CIGNA	35,023	4.0%	31,388	30,541	27,336	27,709	1.4%	2.8%
Health Net	201,886	22.9%	199,258	202,805	207,018	215,544	4.1%	21.8%
Health Plan of the Redwoods	7,738	0.9%	7,843	7,466	7,778	7,255	-6.7%	0.7%
Kaiser Permanente	294,460	33.4%	298,347	306,146	310,213	324,649	4.7%	32.9%
Lifeguard	16,699	1.9%	21,887	24,605	25,923	27,937	7.8%	2.8%
Maxicare	8,980	1.0%	8,521	8,653	8,424	8,606	2.2%	0.9%
National	2,696	0.3%	5,885					0.0%
Omni	14,609	1.7%	18,560	19,976	15,187		-100.0%	0.0%
PacifiCare	103,014	11.7%	101,866	99,788	99,592	107,164	7.6%	10.8%
Universal Care						1,327		0.1%
TOTAL HMOs	739,981	83.9%	756,008	770,533	775,262	796,081	2.7%	80.6%
California Association of Highway Patrolmen*	15,240	1.7%	16,403	17,261	17,940	18,638	3.9%	1.9%
California Correction and Peace Officers Association*	17,933	2.0%	12,860	11,764	10,974	9,695	-11.7%	1.0%
California Professional Firefighters' Association*	4,119	0.5%	3,166	2,535	2,230		-100.0%	0.0%
Peace Officers Retirement Association of California*	4,630	0.5%	4,577	4,933	4,844	5,828	20.3%	0.6%
TOTAL Association Plans	41,922	4.8%	37,006	36,493	35,988	34,161	-5.1%	3.5%
PERS Choice	36,179	4.1%	43,488	53,603	71,956	105,544	46.7%	10.7%
PERS Care	63,359	7.2%	56,731	55,075	50,840	51,942	2.2%	5.3%
TOTAL PPOs	99,538	11.3%	100,219	108,678	122,796	157,486	28.3%	15.9%
Other	625	0.1%	462	517	531	475	-10.5%	0.0%
TOTAL ALL Plans	882,066	100.0%	893,695	916,221	934,577	988,203	5.7%	100.0%

Source: Author's analysis of annual enrollment reports from California Public Employees Retirement System. Enrollment is as of January 1 each year.

Like the Buyers Health Care Group in Minnesota, the PBGH alliance has had problems holding onto members. Bank of America dropped out of the purchasing coalition in 1998 and Wells Fargo in 1999, partly the result of being acquired by bank companies from other states.

In 1996, the PBGH purchasing alliance negotiated contracts with HMOs in which 2% of the projected premium (about $8 million out of $400 million) was put at risk. How much the HMOs would receive was tied to performance on as many as 21 measures. The measures included enrollee satisfaction and a series of HEDIS care measures, such as rates of immunizations or screenings for breast and cervical cancer.

The HEDIS measures and satisfaction surveys were collected or administered by the California Cooperative Healthcare Reporting Initiative (CCHRI), an organization of purchasers, health plans, associations, and others. In the first year, health plan performance was good enough that they collected about three-fourths of the dollars at risk. The rest was refunded to the participating employers. In 1999, CCHRI began to collect some effectiveness-of-care measures from a small number of physician organizations, as a first step toward collecting and publishing comparative data at the provider system level.

In 1999, PBGH was awarded the contract to manage the Health Insurance Plan of California (HIPC), which was launched in 1993 in an effort to make health insurance premiums more affordable for small employer groups. The HIPC was originally administered by the state's Managed Risk Medical Insurance Board (known as MR MIB), but with the expectation that it would be turned over to a private-sector organization.

Adding the HIPC, which PBGH is marketing as Pacific Health Advantage (PacAdvantage), gives PBGH additional lives to leverage in its negotiations. It also means that the member companies can say they are sharing the benefits of their purchasing power with small employers that can be at a major disadvantage when shopping for health insurance. In 1999, the HIPC had about 7,700 participating small businesses. For 2000, it offered a choice of 18 health plans from 12 HMOs, some of which offered more than one product. For 2001, PacAdvantage added new plan options, including PPO and point-of-service plans administered by HealthNet. By purchasing through PacAdvantage, a small employer can offer more health plan choices to employees and (hopefully) pay premiums that are more affordable. State law requires that health insurers sell plans to small businesses on a guaranteed issue basis.

PBGH has only one year of experience with the HIPC, but it appears that it did not achieve its goals for expanding enrollment in the plans. In the early years, the HIPC was seen as not working cooperatively with insurance brokers who play an important role in the distribution system for small group insurance in California. In addition, there are other competitors for that business. Blue Cross does not participate in PacAdvantage, and has developed a strong niche in benefit plans for small employer groups.

During the late 1990s, the PBGH alliance was very successful in holding down premiums at the 11 or so HMOs with which it contracted, and even got reductions in some years. For 2000, however, the average increase was about 10%.

HMO Enrollment in 1999

California
20.6 million, up 4.8%

Colorado
1.6 million, up 2.4%

Florida
5.0 million, up 1.2%

Illinois
2.5 million, up 1.2%

Michigan
2.7 million, up 4.8%

Minnesota
1.3 million, down 3.9%

Ohio
3.0 million, up 1.8%

Texas
4.3 million, up 2.7%

Note that HMO enrollment decreased in the first half of 2000 in Florida, Illinois, Michigan, Minnesota, and Ohio.

II. TREND REVIEW

About this analysis

The following analysis of health plans is based on the annual and quarterly statements that they have submitted to the Department of Corporations for the past several years. (The new Department of Managed Health Care has now assumed those responsibilities.) Most of the tables in this section report data for health plan fiscal years ending in 1999. Most of the large commercial plans have December 31 year-ends. However, almost all of the limited license and county-sponsored plans have June 30 year-ends.

As in other states, health plans in California file an annual statement based on the National Association of Insurance Commissioners (NAIC) forms. Unlike those other states, California still uses the NAIC form from the 1980s. The forms now in use in other states include several additional schedules that produce useful information for the state and for researchers. For example, the NAIC blank now includes a schedule in which HMOs take their revenues and expense report and allocate those numbers to their different lines of business: commercial, Medicare, and Medicaid. While there may be concerns about the methods used by HMOs to make those allocations, the information yielded from those reports can be very helpful to different audiences.

Also used are data reported by other government agencies. The Department of Health Services publishes monthly reports on enrollment in Medi-Cal managed care plans; the federal Health Care Financing Administration reports data each quarter on enrollment in Medicare HMOs in different parts of the state.

The tables in this section are presented in several ways in order to maximize their usefulness to readers. To that end, many are organized to allow readers to see the measures and compare HMOs in their peer group. For example, in Exhibit 5 the numbers are broken into four categories: large HMOs, smaller plans, county health plan initiatives, and limited license health plans.

HMO Enrollment

Enrollment in California HMOs grew steadily in the 1990s, increasing from about 15.9 million in 1995 to 20.4 million in 1999. During 1999, enrollment increased by 4.8% from 19.7 million in 1998. All major lines of business — commercial, Medicare and Medicaid — grew as employers, seniors, and federal and state governments embraced managed care as the solution to the increased cost of health care. *Exhibit 5* shows the enrollment by health plan and by line of business.

Methodology issues. It is important to point out some methodology issues that impact the presentation of data on HMO enrollment in California. First, there is significant potential for double-counting of health plan enrollees, especially those in Medi-Cal plans. A major example is LA Care Health Plan, the local initiative plan run by Los Angeles County, which subcontracts its entire enrollment of more than 600,000 lives to six “health plan partners”—Blue Cross, Care 1st, Community Health Plan, Maxicare, Tower, and United Health Plan. For that reason, LA Care is listed separately in some of the tables in this section. The commercial HMO for Los Angeles County Medi-Cal enrollees is Health Net, which subcontracts out about half of its 400,000 Medi-Cal lives to Molina Medical and Universal Care. According to the annual statements filed with the Department of Corporations, both the prime contractor and the subcontractor list those Medi-Cal enrollees.

The Department of Health Services does not report data on the number of lives in these subcontracting relationships. Some of the information can be derived from the periodic enrollment surveys published by the Cattaneo & Stroud consulting group or by going directly to the health plans. In a related issue, there are three county Medi-Cal plans that are not included on the Department of Corporation lists of Knox-Keene licensed plans and for which no annual statements were found. They are Partnership (Napa-Solano Counties), Central Coast Alliance (Santa Cruz and Monterey), and Santa Barbara Health Plan.

It is also possible to double-count the lives of health plan enrollees that are reported by the limited license health plans. For example, an HMO like PacifiCare can contract out 100% of the care for a group of enrollees to a limited license plan. Both PacifiCare and the limited license plan will report the enrollees, revenues, and expenses associated with those enrollees. Exhibit 5 shows enrollment for the limited license plans below the total.

A second issue with reporting of health plan enrollment must be noted. Some of the largest HMOs include enrollment in PPO plans or by self-funded groups in their annual statements, but others do not. For example, Blue Shield reports PPO and self-funded enrollment on its HMO statements. This report excludes the enrollment for self-funded groups, which is shown separately, but not for PPO business, which is combined with HMO enrollment. Blue Cross reports separately the number of self-funded lives included in its HMO statement; this report excludes those lives. Prudential Health

includes in its reports several hundred thousand members that only have dental benefits. In other states, CIGNA has three-quarters or more of its commercial enrollees in FlexCare, a CIGNA product administered mostly for self-funded employer groups. Based on the premiums CIGNA reports, as

Exhibit 5

Enrollment in California HMOs, 1999

HMO	Commercial	Medicare	Medi-Cal	TOTAL	1998	Change
Aetna U.S. Healthcare	568,457	65,099	0	633,556	503,203	25.9%
Blue Cross*	3,195,352	29,840	583,284	3,808,476	3,479,085	9.5%
Blue Shield*	1,771,471	72,994	0	1,844,465	1,745,224	5.7%
CIGNA HealthCare	664,197	23,064	0	687,261	700,415	-1.9%
Health Net**	1,557,592	145,505	244,788	1,947,885	2,022,923	-3.7%
Kaiser Permanente	5,256,238	570,630	108,817	5,935,685	5,750,342	3.2%
PacifiCare	1,720,000	608,082	0	2,328,082	2,194,806	6.1%
Prudential Health Care*	515,670	0	0	515,670	599,762	-14.0%
Care 1st Health Plan	0	0	222,590	222,590	71,489	211.4%
Chinese Community Health Plan	5,510	0	0	5,510	5,174	6.5%
Community Health Group	0	0	75,212	75,212	65,177	15.4%
Community Health Plan	6,709	0	101,784	108,493	78,886	37.5%
Greater Pacific	0	0	0	-	627	-100.0%
Health Plan of the Redwoods	77,235	10,420	0	87,655	89,785	-2.4%
HealthMax	0	0	0	0	15,186	-100.0%
Inter Valley Health Plan	49,586	13,176	0	62,762	54,231	15.7%
Kern Health Systems	0	0	47,350	47,350	50,758	-6.7%
Lifeguard	244,351	0	0	244,351	223,766	9.2%
Maxicare	245,739	9,715	19,646	275,100	289,749	-5.1%
Molina Medical Centers	5,874	0	160,000	165,874	152,893	8.5%
National Med	31,960	15,547	0	47,507	51,812	-8.3%
Omni Healthcare	26,089	0	0	26,089	135,467	-80.7%
On Lok Senior Health Plan	1	39	754	794	0	
One Health Plan	68,830	0	0	68,830	65,713	4.7%
SCAN Health Plan	6,039	32,708	1,067	39,814	30,255	31.6%
Sharp Health Plan	33,884	0	48,120	82,004	59,148	38.6%
Tower Health	11,676	0	85,849	97,525	91,529	6.6%
UC San Diego Health Plan	0	1,299	13,489	14,788	0	
UHP Healthcare	10,944	9,181	88,000	108,125	100,338	7.8%
United HealthCare	135,743	1,066	0	136,809	141,759	-3.5%
Universal Care	75,723	111	161,684	237,518	183,997	29.1%
Valley Health Plan	6,397	0	29,217	35,614	30,494	16.8%
Ventura County	8,132	0	0	8,132	6,206	31.0%
VivaHealth (BPS HMO)	9,828	0	0	9,828	19,888	-50.6%
Western Health Advantage	22,212	0	15,107	37,319	26,323	41.8%
County Plans						
Alameda Alliance for Health	0	0	79,386	79,386	72,460	9.6%
Contra Costa Health Plan	11,762	791	41,383	53,936	52,628	2.5%
Inland Empire Health Plan*	0	0	143,095	143,095	137,122	4.4%
San Francisco Health Plan	5,295	0	21,728	27,023	21,173	27.6%
San Joaquin County Health	3,116	0	53,363	56,479	57,129	-1.1%
San Mateo Health Commission	0	0	39,538	39,538	38,708	2.1%
Santa Clara Family Health Plan	2,118	0	43,527	45,645	40,384	13.0%
TOTAL	16,267,681	1,611,319	2,518,313	20,397,313	19,456,014	4.8%
1998	15,722,515	1,566,898	2,166,601	19,456,014		
Change	3.5%	2.8%	16.2%	4.8%		
% by Program	79.8%	7.9%	12.3%			
Limited license plans and other	Commercial	Medicare	Medi-Cal	TOTAL	1998	Change
Concentrated Care Inc	22,136	0	0	22,136	0	
Heritage Provider Network	145,998	0	0	145,998	130,372	12.0%
MedPartners Provider Network	0	0	0	-	1,131,918	-100.0%
Monarch	0	0	0	-	27,288	-100.0%
Primecare Medical Network	105,539	17,754	0	123,293	111,197	10.9%
Priority Plus	99,767	0	0	99,767	103,898	-4.0%
St. Joseph's Provider Network	22,986	2,129	0	25,115	0	
LA Care (Local Initiative Health Authority)	0	0	616,383	616,383	583,540	5.6%

Source: Author's analysis of HMO annual statements, Report #4, as of end of each HMO's fiscal year 1999.

*The table excludes other members as follows: In 1999, Blue Cross reported an additional 19,290 plan enrollees in ASO (administrative services only) arrangements. Blue Shield reported 255,677 in self-funded arrangements. Inland Empire reported 3,003 members in Healthy Families. Prudential reported 387,485 members in dental benefit plans.

**Health Net's Medi-Cal enrollment adjusted down for enrollees subcontracted to Molina Medical (98,555) and Universal Care (133,238)

well as interviews for this report, that is probably the case in California as well; but no information was obtained about how many enrollees that includes. On the other hand, United HealthCare has reported at different times that it has about 750,000 lives in PPO and other arrangements in California, but does not report that enrollment or the associated revenues and expenses on its HMO statement.

Among the large HMOs, Aetna U.S. Healthcare had the largest percentage increase in 1999, but Blue Cross added 329,000 net new enrollees. In 1999, it was not unusual for California HMOs to see 20% of their enrollees leave the plan, usually replaced by an equal number of new members. Care 1st, a Los Angeles Medicaid plan, was one of the fastest growing plans in 1999, tripling its enrollment as a subcontractor to LA Care.

Prudential Health, which is being absorbed by Aetna U.S. Healthcare, saw its enrollment decline by 14% in 1999. OmniCare transitioned most of its enrollment to Blue Cross in 1999. HealthMax America also disappeared, with some of its enrollees transitioned to Universal Care.

Exhibit 6 shows the growth of HMO enrollment in the past four years. In 1995, there were 15.9 million enrollees in California HMOs. Enrollment jumped 16.3% in 1997, when enrollment in Medi-Cal managed care plans grew by 1 million. However, the rate of enrollment growth dropped to 3.7% in 1998 and was only 4.9% in 1999. In 1999, commercial plans added 630,000 enrollees, while Medi-Cal plans grew 11.6%, or 277,000 members.

Enrollment has grown in all three major lines of business: commercial, Medicare, and Medi-Cal. Beginning in 2000, health plans will play a significant role in the Healthy Families program, which is not Medi-Cal, but it is not completely like commercial enrollment either. It would be helpful if the Department of Managed Health Care modified the annual and quarterly statement forms to provide useful health plan information about Healthy Families and other programs.

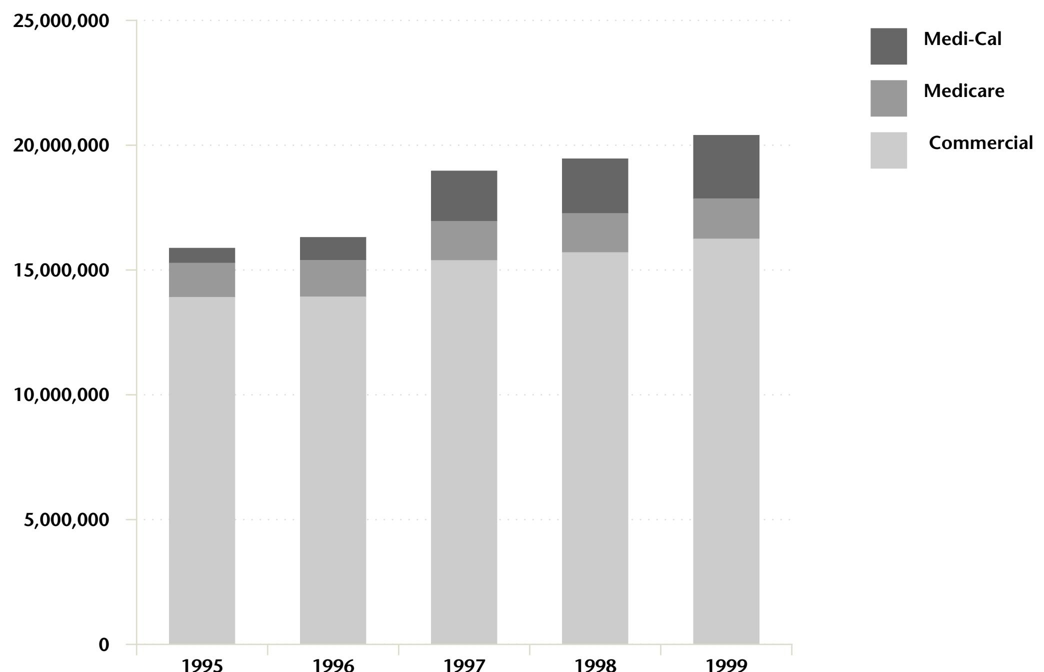
Medicare Plans

Enrolling senior citizens in HMOs began as a demonstration project 20 years ago, and has grown significantly since then. There were high hopes for Medicare managed care — that it would contain Medicare costs, help employers paying for retiree benefits, and even solve the problems of seniors needing a prescription drug benefit. However, the future of Medicare managed care is somewhat cloudy now, and it may be that enrollment in California and other states has topped out.

Exhibit 7 tracks the growth of Medicare HMO enrollment in California since 1995, when 15 health plans were offering HMO products. *Exhibit 8* provides some additional details on enrollment in Medicare plans. The number of plans is basically the same today. A few new ones have entered while others have merged or left the market. For

Exhibit 6

Enrollment in California HMOs, 1995-1999



California Government Agencies Involved with Managed Care

· The **Business, Transportation and Housing Agency** (www.bth.ca.gov) is responsible for regulating managed care plans, among other duties. Secretary Maria Contreras-Sweet oversees BTH, the largest agency in California. Among the agency's 13 departments are the Department of Corporations and the newly created **Department of Managed Health Care.**

· **The California Department of Managed Health Care** (www.dmhc.ca.gov) is a new department created as part of a broad, managed care reform package enacted January 1, 2000. Daniel Zingale is the director. The department formally began its responsibilities July 1, 2000. In addition to general regulatory and licensing powers, the DMHC's mandates and responsibilities include prevention rights, advisory boards, public education campaigns, new lines of communications with health plans, safeguards for financial solvency, and an Office of the Patient Advocate.

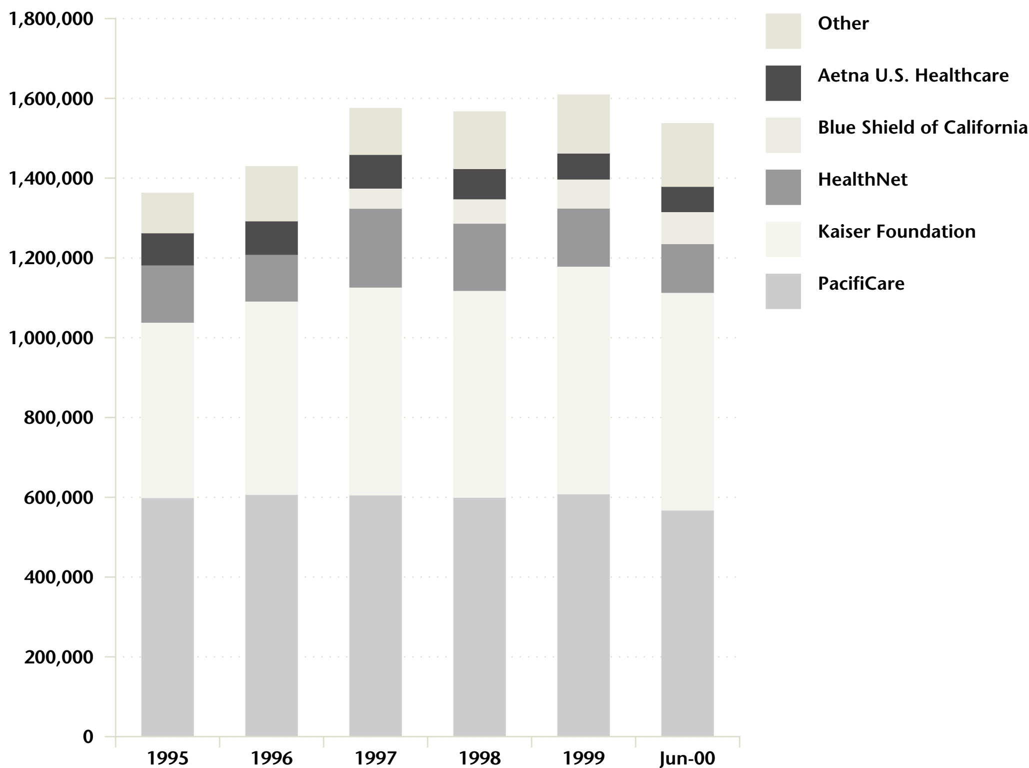
· **The California Department of Insurance** (www.insurance.ca.gov) regulates insurers and licenses insurance agents and brokers. The department also provides consumer information and assistance concerning insurance issues.

· **The California Health and Human Service Agency** (www.chhs.ca.gov), under Secretary Grantland Johnson, administers state and federal programs for health care and social services. Programs are administered through the agency's 15 boards and departments including the **Department of Health Services** and the **Office of Statewide Health Planning and Development**. The Department of Health Services (www.dhs.ca.gov), operates California's Medicaid program, Medi-Cal, and is responsible for coordination and direction of its eligibility, benefit, and reimbursement components as well as for developing partnerships with providers and medical service organizations to encourage organized health care delivery systems.

· **The Managed Risk Medical Insurance Board** (known as MR.MIB) www.mrmib.ca.gov administers programs that help to fill the uninsured gap. Its original program is a risk pool for persons turned down in the private insurance market. It now administers the Healthy Families program of subsidized

Exhibit 7

Enrollment in California Medicare HMOs, 1995-2000



Source: Author's analysis of HMO annual statements, Report #4. June 2000 data are from Coordinated Care Plans enrollment report from HCFA web site

Exhibit 8

Enrollment in California Medicare HMOs, 1995-2000

HMO	1995	1996	1997	1998	1999	June 2000
PacifiCare	598,594	606,603	605,261	599,806	608,082	567,436
Kaiser Foundation	439,718	484,661	521,066	518,107	570,630	545,618
Health Net	143,615	117,225	197577	168457	145,505	122,187
Blue Shield of California			50,872	61,233	72,994	80,490
Aetna U.S. Healthcare	80,412	83,822	84,123	76,112	65,099	63,105
Other	100,569	136,890	116,447	143,183	146,957	158,050
SCAN Health Plan	7,271	9,090	14,474	26,296	32,708	38,105
Blue Cross of California	32,895	44,714	10,937	18,469	29,840	35,116
Cigna HealthCare	15,156	18,323	22,294	25,721	23,064	16,594
National Med		14,311	14,311	16,938	15,547	14,571
Inter Valley Health Plan	14,457	13,473	12,601	12,530	13,176	16,879
Health Plan of the Redwoods	7,653	9,877	10,186	10,168	10,420	10,569
Maxicare	2,263	3,241	4,142	6,188	9,715	12,525
WATTS Health Foundation (UHP Healthcare)	12,785	11,470	10,223	9,807	9,181	8,456
UCSD Health Plan					1,299	3,768
United HealthCare			72	1,627	1,066	
Contra Costa Health Plan	989	999	966	911	791	
Universal Care				124	111	
On Lok Senior Health Plan					39	
Chinese Community Health Plan	704	305	637	942		1,467

Source: Author's analysis of HMO annual statements, Report #4. June 2000 data are from Coordinated Care Plans enrollment report from HCFA web site

health insurance; previously it managed the Health Insurance Plan of California, a small-business insurance purchasing initiative.

· **The Office of Statewide Health Planning and Development** (www.oshpd.state.ca.us), also under the jurisdiction of the California Health and Human Services Agency, plans and supports the development of health care systems to meet current and future needs of the state. In addition to collecting and analyzing data about hospitals, clinics, and other health-related facilities, the office has a hospital building safety program, a loan insurance program for not-for-profit facilities, and a program to support for health professional training

· **The California Public Employees Retirement Association (CalPERS)** (www.calpers.ca.gov) manages a Health Benefits Program with more than one million members. It is the second-largest purchaser of health care benefits in the nation, second only to the Federal Employees' Health Benefits Program. It is a national model of large group health care purchasing. The Public Employees' Medical and Hospital Care Act governs the benefit program. CalPERS is administered by a board of directors. The program was established in 1962 for employees of the state. In 1967, other public employers were allowed to join the program on a contract basis and about 1,200 other public employers now participate in the program. The **California State Teachers Retirement System** (CALSTRS) (http://www.calstrs.ca.gov) contracts for health insurance and other benefits for active and retired teachers. The state **Department of Personnel Administration** (http://www.dpa.ca.gov) manages the benefits for state employees.

· In California, **counties** have been providing health care services for almost 150 years. Several counties own and operate hospitals which serve as a safety net for people seeking medical care A handful of county health departments also administer publicly funded health care plans and provide health plan benefits for county employees. Counties that contract with the state to manage services for Medi-Cal include San Mateo (Health Plan of San Mateo), Solano and Napa (Partnership Health Plan of California), Santa Cruz (Santa Cruz County Health Options), Santa Barbara (Santa Barbara Health Authority), and Orange (CalOPTIMA).

Many employers that have made commitments to provide health benefits to their retirees are required under financial accounting standards to report those future liabilities, which are significant, on their corporate balance sheets. They could probably save money by encouraging their retirees to enroll in an HMO. But until they see a resolution of the current problems and a more normal situation, they will watch and wait.

example, Medicare was an important business for both FHP and PacifiCare in 1996, and was an important factor in PacifiCare's decision to acquire FHP. In some cases, such as PacifiCare's Secure Horizons, the product name is as well known as the name of the HMO.

California is also home to a demonstration project that addresses more than the medical needs of seniors. SCAN Health Plan in Long Beach operates a "social HMO" (SHMO) that grew to 38,000 enrollees by the middle of 2000. The HMO coordinates access to physicians and hospital care and also assists members with in-home services.

About one in three California seniors is enrolled in an HMO. PacifiCare and Kaiser Permanente are by far the largest Medicare HMO plans in California, with 608,000 and 571,000 enrollees, respectively, at the end of 1999. Combined, the two had 73% of the 1.6 million Californians in Medicare HMOs. California is ahead of most other states with Medicare enrollment. In neighboring states, the penetration rates for Medicare HMOs are 36% of seniors in Arizona, 20% in Nevada, 31% in Oregon, and 20% in Washington.

Medicare enrollees are a significant source of revenue for the health plans. For example, less than 25% of PacifiCare enrollees are in Medicare plans. But more than 61% of the health plan's revenues ($3.9 billion of $6.2 billion in 1999) have come from Medicare. On average, 26.5% of HMO revenues in 1999 came from Medicare, though that is only about 8% of enrollees. Commercial enrollees brought in revenues of about $120 per month, but seniors bring in an average of $575 per month.

The federal government sets a base payment rate for each county in the nation. E*xhibit 9* shows the rates for the beginning of 2001 in the largest counties in the state. The AAPCC (average area per capita cost) formula rate is a starting point for what a health plan will actually be paid. HCFA announced it would adjust those rates upward effective in March 2001, using Medicare restoration funds

Exhibit 9

Medicare+Choice Payment Rates and Penetration in Selected Counties, March 2000

County	2001 AAPCC Rate*	Number of HMOs in 2000	Senior HMO Enrollment	Senior Population	Penetration Rate in 2000
Alameda (Oakland)	630.04	7	66,764	162,149	41.2%
Contra Costa	641.65	8	54,252	119,004	45.6%
Fresno	446.80	4	24,624	92,414	26.6%
Kern	560.94	6	30,626	76,023	40.3%
Los Angeles	673.86	10	364,306	921,642	39.5%
Marin	574.44	3	18,845	35,191	53.6%
Monterey	553.69	0	321	44,000	0.7%
Napa	607.99	2	8,419	22,335	37.7%
Orange (Anaheim)	621.82	11	113,922	292,746	38.9%
Placer	538.27	4	16,002	32,971	48.5%
Riverside	564.71	10	107,174	204,949	52.3%
Sacramento	556.56	6	72,662	155,031	46.9%
San Bernardino	576.86	9	88,737	171,822	51.6%
San Diego	575.04	6	165,419	348,595	47.5%
San Francisco	583.03	7	42,747	162,149	26.4%
San Joaquin	505.53	4	26,006	69,643	37.3%
San Mateo	529.10	5	41,001	94,187	43.5%
Santa Barbara	464.89	3	19,630	56,230	34.9%
Santa Clara	554.09	6	69,262	170,886	40.5%
Santa Cruz	537.77	1	6,002	29,095	20.6%
Solano	563.65	2	17,327	40,521	42.8%
Sonoma	542.22	4	29,442	64,615	45.6%
Stanislaus	519.45	4	25,956	56,182	46.2%
Ventura	556.60	5	32,032	86,565	37.0%

Source: Author's analysis of reports from U.S. Health Care Financing Administration.
* AAPCC rates are for January-February 2001. HCFA increased the rates effective March 1, 2001. These are base rates subject to adjustment for demographic factors and risk adjustment.

approved by Congress in December 2000. However, the result was an increase of only 1% in the major cities in California. A few counties got double-digit increases to bring them up to a new floor of $525 per month. The rate in Fresno County increased 17.5% on March 1, 2001, while the rate in Santa Barbara County went up 12.9%.

Beginning in 2000, the federal government introduced a risk adjustment system. As it is phased in, a growing portion of the rate will be based on the illness burden associated with that enrollee.

In 2000, the monthly AAPCC rates in California ranged from $447 in Fresno to $674 in Los Angeles. Using HCFA data this analysis compares those counties on their senior population and the penetration rate for HMO plans. In nine of the counties, more than 45% of seniors were in an HMO. In Marin, Riverside, and San Bernardino, more than 50% of seniors were in an HMO in 2000. In the counties listed, the penetration rate was lowest in Monterey County, where there were no Medicare HMOs officially in the area and where HMOs have had a difficult time gaining a foothold. Even in 2000, after two years of withdrawals, seniors in most of the counties in the table could still choose from four or more HMO plans.

In each of the past three years, several California HMOs have announced that they were withdrawing their Medicare plans from the entire state or from certain counties. Prudential Health exited effective January 1999 and United HealthCare withdrew as of the beginning of 2000. CIGNA dropped out of several counties in 2000 and went out of the Medicare business in all of California and most of the rest of the country at the beginning of 2001. According to information reported by Cattaneo & Stroud, seniors in 23 California counties would not have any Medicare managed care options at the beginning of 2001. So far, almost all seniors who lose their Medicare HMO can enroll in a different one.

However, the problem for seniors—who want stability and predictability in their health insurance—goes deeper than the inconvenience of having plans enter and exit a geographic or product market. Many plans have recently announced they will begin to charge enrollee co-premiums or put new limits on supplemental benefits, which creates an air of instability around the program. This tends to discourage not only seniors, but employers as well. In fact many employers that have made commitments to provide health benefits to their retirees are required under financial accounting standards to report those future liabilities, which are significant, on their corporate balance sheets. They could probably save money by encouraging their retirees to enroll in an HMO. But until they see a resolution of the current problems and a more normal situation, they will watch and wait.

HMOs argue that the current system is broken and that it does not provide enough revenue to the HMOs to stay in the Medicare business. However, it appears that HCFA does not believe that the HMOs are underpaid. In fact, HCFA would probably point to a stack of reports that conclude that HMOs generally attracted a healthier than average senior to their plans and, if anything, have been overpaid in past years.

Medi-Cal

In 1999, there were about 5 million Californians receiving health coverage through the Medi-Cal program. They were roughly split between fee-for-service arrangements and managed care plans. About 2.5 million California Medicaid recipients were in some kind of managed care arrangement.

Over the past 10 years, California has used a number of different arrangements for Medi-Cal managed care. It used to employ prepaid health plan arrangements where providers were generally not accepting significant risk, and a primary care case management (PCCM) model, in which physicians and clinics played a role in overseeing patients' referrals to specialists and hospital admissions. Those models have largely faded away, and there are now three primary structures in use:

• The two-plan system, in which a county-sponsored health plan and a commercial HMO compete for Medicaid enrollees;

• County-organized health systems, in certain counties where a county authority manages a health plan-like arrangement;

• Geographic managed care, where several health plans compete for enrollees within a county.

Exhibit 10 shows the enrollment in those arrangements from 1997 to June 2000. Two are barely visible in the graphic because their recent numbers are so low. Enrollment peaked around the end of 1999 at 2.6 million, but has dropped since then. Like other states, California is seeing an overall decline in the number of persons receiving Medicaid. About 1.8 million Medi-Cal recipients are in arrangements in two-plan counties. Under the two-plan arrangement, a commercial HMO competes with a county-sponsored managed care plan. That is how it works in some places, but not all. In Los Angeles, LA Care is the county health initiative. It subcontracts all 600,000 lives to six other health plans, but keeps a portion of the premium paid by the state. In Fresno, Blue Cross is the "county plan" and it competes with Health Net.

Enrollment in Medi-Cal managed care plans peaked around the end of 1999 at 2.6 million, but has dropped since then. Like other states, California is seeing an overall decline in the number of persons receiving Medicaid.

In most cases, but not all, the county Medi-Cal plan has attracted larger market share than the commercial plan.

Exhibit 10

Enrollment in Medi-Cal Managed Care Arrangements, 1997-June 2000

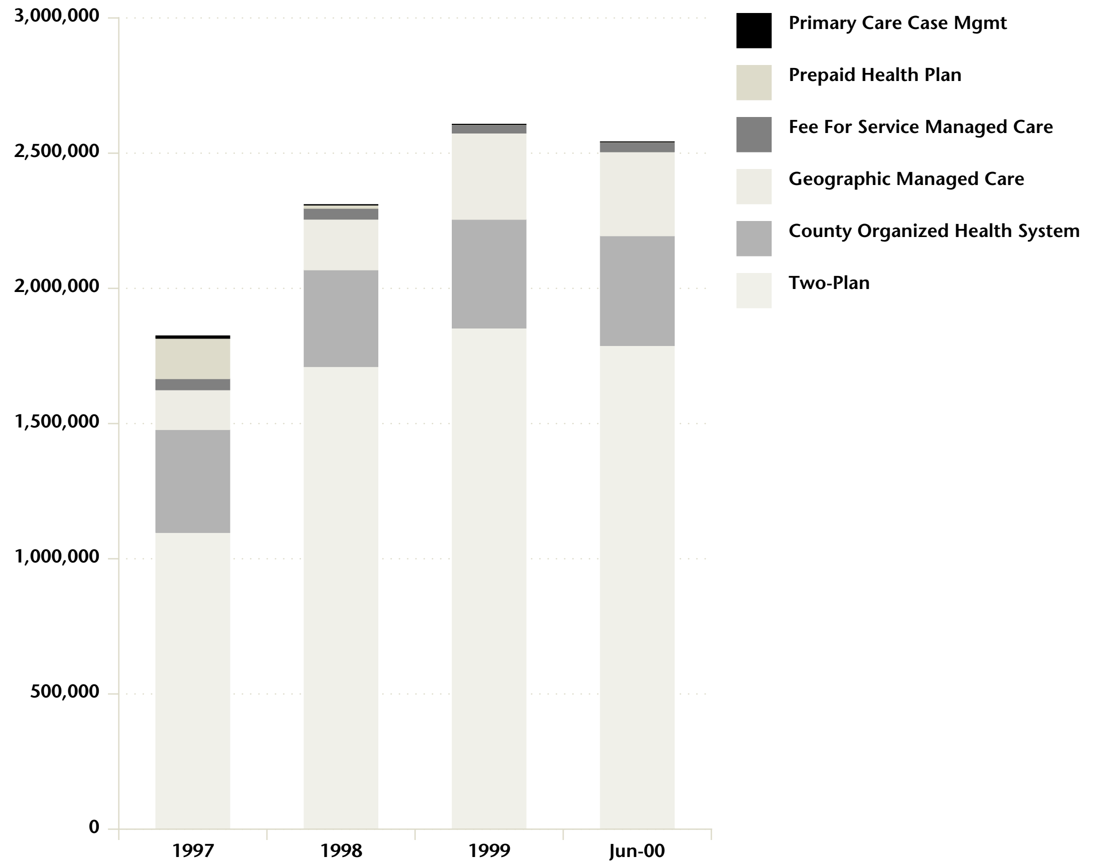


Exhibit 11 shows the enrollment in the county-organized health systems and the two-county plans. In most cases, but not all, the county plan has attracted larger market share than the commercial plan. For example, the Alameda Alliance has 72.3% of the enrollees and Blue Cross the rest in Alameda County. In some instances, the county may have had a head start by converting enrollees in PCCM arrangements. Geographic managed care is used in Sacramento and San Diego counties, and reached 319,000 lives in 1999. One could say that the LA Care arrangement, with its six health plan partners, is itself more of a geographic managed care model.

As shown in *Exhibit 12,* Blue Cross was the largest Medicaid contractor, with 583,000 enrollees in 1999. Health Net, the commercial plan in Los Angeles County, was second largest. Inland Empire Health Plan, in Riverside and San Bernardino Counties, was the largest county-sponsored plan.

Since 1998, the Department of Health Services has sought to expand quality measurement and reporting for Medi-Cal managed care contractors. It has been a struggle, partly because of limited reporting capabilities of some plans. Some of the data problems are the same as those found with commercial plans. Capitated physician groups are not supplying health plans with full encounter data. The health plan does not need the encounter data to pay claims because it is paying a capitation. And the physician organization might be reluctant to share encounter data that would enable the health plan to evaluate whether the capitation rate is appropriate.

Exhibit 11

Enrollment in Medi-Cal Managed Care County Plans, 1999

County Organized Health Systems		1999 Enrollment
Central Coast Alliance	Monterey and Santa Cruz	51,889
Partnership HealthPlan	Napa and Solano	50,777
OPTIMA*	Orange	218,384
San Mateo	San Mateo	40,738
Santa Barbara	Santa Barbara	40,103
Subtotal		401,891

Two-Plan systems

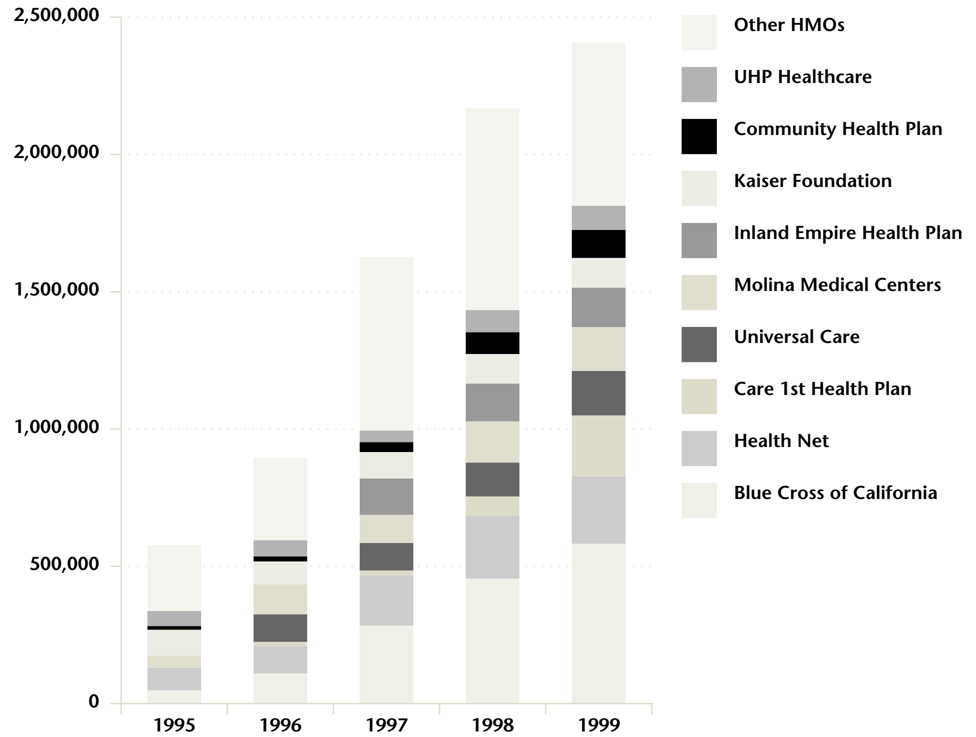
County	Plans	1999 Enrollment	Share Within County
Alameda	Alameda Alliance	77,753	72.3%
	Blue Cross	29,731	27.7%
		107,484	
Contra Costa	Contra Costa Health Plan	34,550	86.5%
	Blue Cross	5,382	13.5%
		39,932	
Fresno	Blue Cross	104,351	82.3%
	Health Net	22,413	17.7%
		126,764	
Kern	Kern Heath Systems	46,232	63.2%
	Blue Cross	26,975	36.8%
		73,207	
Los Angeles	LA Care*	623,061	60.1%
	Health Net*	413,405	39.9%
		1,036,466	
Riverside	Inland Empire Health Plan	81,268	79.0%
	Molina Medical Centers	21,576	21.0%
		102,844	
San Bernardino	Inland Empire Health Plan	104,846	79.5%
	Molina Medical Center	26,989	20.5%
		131,835	
San Francisco	San Francisco	21,831	60.4%
	Blue Cross	14,326	39.6%
		36,157	
San Joaquin	Health Plan of San Joaquin	50,022	81.6%
	Blue Cross	11,274	18.4%
		61,296	
Santa Clara	San Clara Family Health	40,236	60.8%
	Blue Cross	25,900	39.2%
		66,136	
Stanislaus	Blue Cross	25,385	62.6%
	Omni Healthcare	15,137	37.4%
		40,522	
Tulare	Blue Cross	26,098	86.6%
	Health Net	4,051	13.4%
		30,149	

Source: Author's analysis of Department of Health Services monthly enrollment reports for December 1999.
*OPTIMA, Health Net and LA Care subcontract some or all of their enrollees to other HMOs.

Penetration was highest in Northern California, where as many as 71% of the residents were HMO members. The lowest rates of penetration, about 30%, are in mostly rural northern counties near the Oregon border and in the central coast area, including Monterey.

Exhibit 12

Enrollment in Medi-Cal HMO Plans, 1995-1999



Enrollment by Region

An important issue in analyzing any health care market is looking at managed care penetration and market share at the local level. Since California does not collect data from health plans on where their enrollees live, enrollment numbers reported earlier for fiscal years ending in 1999 were used. To construct estimates of HMO enrollment at the county level, the analysis relied on a combination of sources and assumptions. *Exhibit 13* and *Exhibit 14* display the results of our analysis. For Medi-Cal enrollment, reports from the Department of Health Services were used, although these reports do not address the question of how to count lives that are in subcontract arrangements.

HCFA reports were used to look at enrollment in Medicare HMO plans by county. Because of a change made two years ago, the HCFA reports do not list enrollment in counties where a health plan has very few enrollees. In the end, that only affects a small number of enrollees. The HCFA reports never correspond exactly to the state HMO filings,

Exhibit 13

Estimated HMO Enrollment and Penetration by Region, 1999

	Region	Estimated HMO Enrollment	Estimated Population	Estimated Penetration Rate
1	North	269,134	893,300	30.1%
2	Sacramento	1,367,881	1,992,540	68.7%
3	Napa-Sonoma	694,731	976,100	71.2%
4,5,7	Bay Area	4,187,723	5,902,100	71.0%
6	Sierra Nevada	694,290	1,345,190	51.6%
8	Central Coast	293,689	949,300	30.9%
9	Central Valley	1,044,488	2,096,350	49.8%
10	Santa Barbara	612,517	1,170,700	52.3%
11,13	Los Angeles-Orange	7,786,242	12,712,700	61.2%
12	Inland Empire	1,952,417	3,241,300	60.2%
14	San Diego	1,701,017	3,056,800	55.6%
	TOTAL	20,604,129	34,336,380	60.0%

Exhibit 14

Estimated Health Plan Enrollment by Region, 1999

HMO	Sacramento-to Oregon 1,2	Napa - Sonoma 3	Bay Area 4,5,7	Sierra Nevada 6	Central Coast 8	Central Valley 9	Santa Barbara 10	Los Angeles - Orange 11,13	Inland Empire 12	San Diego 14	TOTAL
Aetna U.S. Healthcare-Prudential Health	32,991	22,501	334,524	25,823	25,823	29,717	49,994	402,995	176,846	117,529	1,209,338
Blue Cross of California	236,999	37,163	568,174	149,749	69,070	497,762	151,923	1,490,176	257,289	214,049	3,672,353
Blue Shield of California	241,594	34,749	470,415	107,565	45,779	64,653	84,227	443,298	222,721	145,088	1,860,089
CIGNA HealthCare	875	2,301	55,958	1,360	4,610	1,413	21,387	493,680	58,636	43,763	683,984
Health Net	261,090	82,733	220,143	67,389	49,326	73,510	95,645	786,653	140,361	110,044	1,886,893
Kaiser Permanente	684,449	405,350	1,657,547	137,403	16,656	144,224	44,997	1,677,382	538,328	530,191	5,836,526
PacifiCare	118,143	39,153	258,051	86,606	49,906	130,731	77,155	907,226	299,359	321,073	2,287,403
Care 1st Health Plan	0	0	0	0	0	0	0	222,590	0	0	222,590
Chinese Community Health Plan	0	0	6,787	0	0	0	0	0	0	0	6,787
Community Health Group	0	0	0	0	0	0	0	0	0	75,212	75,212
Community Health Plan	0	0	0	0	0	0	0	108,493	0	0	108,493
Contra Costa Health Plan	451	1,417	47,316	0	0	0	0	0	0	0	49,184
Health Plan of the Redwoods	76	10,395	77,251	0	0	0	0	0	0	0	87,722
Inland Empire Health Plan	0	0	0	0	0	0	0	0	186,114	0	186,114
Inter Valley Health Plan	11	0	11,648	0	0	0	254	25,799	23,655	1,656	63,023
Lifeguard	3,701	1,184	177,305	22,426	36,417	2,801	518	0	0	0	244,351
Maxicare	8,062	19,710	3,219	258	43	641	2,893	129,777	19,471	2,415	186,489
Molina Medical Centers	826	1,831	0	0	0	25	0	150,324	1,399	0	154,405
National Med	14,551	0	94	31,314	0	1,110	0	202	121	0	47,392
Omni Healthcare	12,370	18,649	95	13,569	0	0	0	0	0	0	44,683
One Health Plan	1,592	3,397	26,274	103	1,260	886	962	27,076	4,334	2,946	68,830
SCAN Health Plan	0	0	0	0	0	0	0	34,469	9,274	14	43,757
Sharp Health Plan	0	0	0	0	0	0	0	0	0	80,118	80,118
Tower Health	0	0	0	0	0	0	0	69,307	25,857	0	95,164
UCSD Health Plan	0	0	0	0	0	0	0	0	0	16,111	16,111
United HealthCare	400	442	28,179	195	63	1,606	31	90,988	11,873	1,966	135,743
Universal Care	0	0	0	0	0	0	0	171,100	11,358	38,843	221,301
Valley Health Plan	0	0	35,614	0	0	0	0	0	0	0	35,614
VivaHealth (BPS HMO)	0	0	0	0	0	0	0	9,828	0	0	9,828
UHP Healthcare	0	0	0	0	0	0	0	108,112	107	0	108,219
Western Health Advantage	20,159	17,340	0	0	0	0	0	0	0	0	37,499
County Plans											
Alameda Alliance for Health	0	0	77,753	0	0	0	0	0	0	0	77,753
Central Coast Alliance	0	0	0	0	0	51,889	0	0	0	0	51,889
Kern Health Systems	0	0	0	0	0	46,232	0	0	0	0	46,232
Optima	0	0	0	0	0	0	0	436,768	0	0	436,768
Partnership	0	0	50,777	0	0	0	0	0	0	0	50,777
San Francisco Health Plan	0	0	27,126	20	0	1,094	0	0	0	0	28,240
San Joaquin County Health	0	0	0	53,138	0	0	0	0	0	0	53,138
San Mateo Health Commission	0	0	39,538	0	0	0	0	0	0	0	39,538
Santa Barbara	0	0	0	0	0	0	80,206	0	0	0	80,206
Santa Clara Family Health Plan	0	0	42,354	0	0	0	0	0	0	0	42,354
Ventura County	0	0	0	0	0	0	8,132	0	0	0	8,132
TOTAL	1,637,014	694,731	4,187,723	694,290	293,689	1,044,488	612,517	7,786,242	1,952,417	1,701,017	20,604,129

Source: Author's estimates based on: (1) Quarterly enrollment by county and plan reports issued by U.S. Health Care Financing Administration; (2) Department of Health Services monthly reports on enrollment in Medi-Cal managed care plans and (3) extrapolations of commercial enrollment based on 1998 survey conducted by California Association of Health Plans and 1999 fiscal year-end enrollment reported by HMOs in their annual statements. Report #4. Does not tie out to Exhibit 5 total because of estimates and because the regional analysis includes some county Medi-Cal plans for which no 1999 annual statement was found at the Department of Corporations.

HMO Profitability (or not) in 1999

California
$810 million, 2.2%

Colorado
-$39.3 million, (9.1%)

Florida
-$180.4 million (1.6%)

Illinois
$36.5 million, 0.9%

Michigan
-$45.3 million, (0.9%)

Minnesota
$19.7 million, 0.6%

Ohio
-$43.2 million, (1.0%)

but the two reports come close. Note that there are small demonstration projects in California that are not included in this analysis.

Estimating commercial enrollment is the most difficult and therefore those estimates are the softest. They were extrapolated using the results of a survey conducted by researchers at the California Association of Health Plans in September 1998. Not all HMOs participated in the survey and it is understood that the quality of the responses was somewhat uneven. The results were compared to other published surveys of California health plan enrollment, including the March 2000 survey published by Cattaneo & Stroud. That firm does not make public actual enrollment numbers by plan but does report a size ranking for the plans operating in each county. InterStudy publishes estimated penetration rates for metropolitan statistical areas.

Enrollment in limited license health plans is not included. Estimates of county population are taken from the demographic reports published by the California Department of Finance. The counties are grouped based on the 14 Health Service Area (HSA) regions used for state health planning. In the tables, three regions in the Bay Area are combined; Los Angeles and Orange counties, which are separate HSAs, are put together.

Exhibit 13 presents estimates of HMO enrollment in 1999 and penetration by region. About 60% of the population of the state were in an HMO, and that does not include the self-funded groups administered by Blue Cross or Blue Shield. Penetration was highest in Northern California, where as many as 71% of the residents were HMO members. The lowest rates of penetration, about 30%, are in mostly rural northern counties near the Oregon border and in the central coast area, including Monterey. Even so, 30% is a higher penetration than in many states.

As *Exhibit 14* shows, the largest health plans had a presence in every region of the state. On the other hand, many health plans only had enrollment in a single region. Section III of this report presents some additional details on which health plans had significant market share in different regions of the state.

Enrollment Prospects

What are the prospects for future HMO enrollment growth in California? They do not appear strong. First, the market for HMOs may already be saturated. There are few places in the country where the penetration level is as high as California. Second, the three major market segments—commercial, Medicare, and Medi-Cal—are experiencing trends that are likely to lead to slow growth or even a decline in enrollment. Employers are showing less interest in the HMO model and are increasingly going to PPOs and similar arrangements, even if there is a price differential. The rate of people without any insurance would likely increase during a sustained slowdown in the economy.

In addition, HMOs are reducing their presence in rural areas of the state or where they have apparently given up in the battle with locally dominant providers. Enrollment in Medicare HMOs stopped growing and even dropped in California and several other states at the end of 2000. Without some federal changes from Washington, that line of business is unlikely to recover. Overall Medi-Cal enrollment is declining, even as most of the recipients in the larger counties have moved into managed care. In the first half of 2000, HMO enrollment declined in several states because of a variety of factors: HMOs going bankrupt, Medicare HMOs withdrawing, employers showing a new preference for PPOs, and so on.

A possible area for growth in California is the state's Healthy Families program, which has been growing steadily. Enrollment increased from 209,999 at the end of 1999 to 363,000 at the end of 2000. As of March 2001, enrollment was 398,654. California, like other states, has enrolled only a fraction of the children eligible for the program. As that program grows, more children will enter HMOs. And, if the state provides creative ways for the parents of those children to get subsidized coverage, that might open up an important business opportunity for health plans.

Profitability

In 1999, California HMOs reported net margins, after taxes, of $810 million, or 2.2% on revenues of $37.4 billion. *Exhibit 15* summarizes the results. Of the 28 full-services plans shown in the table, only eight lost money. In 1998, the health plans had average profit after taxes of 2.0%, which was up from 1.5% in 1997.

However, the average tends to mask significant variation in the results for health plans last year. The seven largest HMOs, shown at the top of *Exhibit 15*, had profits of $698 million, or 2.2% of total revenues. In that group only Prudential Health lost money. Blue Cross and PacifiCare had the largest profits, netting $253.0 and $259.7 million respectively. Thus, all the other health plans in the state, on average, broke even for the year.

Investment income yielded $300 million for the health plans. However, more than half of that, $171.6 million, was from Kaiser Permanente. For-

profit health plans and Blue Shield, which is organized as a not-for-profit, all pay taxes on their gain. In 1999, the largest HMOs paid $442.6 million in taxes.

Exhibit 15

Profits and Losses for California HMOs, 1999

HMO	Revenue	Profit (Loss) Pre-Tax	Taxes Paid	Profit (Loss) After Tax	Margin	Profit (Loss) Per Member Per Month
Aetna U.S. Healthcare	1,122,024,955	9,376,076	0	9,376,076	0.8%	1.36
Blue Cross*	5,332,869,000	434,570,000	179,046,000	253,038,000	4.7%	5.69
Blue Shield*	2,975,553,000	16,207,000	2,505,000	16,925,000	0.6%	0.69
Health Net	3,678,223,909	165,347,196	68,376,701	94,362,117	2.6%	3.60
Kaiser Foundation Health Plan	11,945,443,000	67,319,000	0	67,319,000	0.6%	0.93
PacifiCare	6,244,245,678	430,415,896	170,693,607	259,722,289	4.2%	9.43
Prudential Health*	787,676,376	-3,744,785	-788,965	-2,955,820	-0.4%	(0.26)
Care 1st	68,287,057	1,355,638	653,005	702,633	1.0%	0.79
Chinese Community	14,883,777	259,021	89,654	169,367	1.1%	2.18
CIGNA Health	1,166,259,525	52,755,124	21,943,333	30,811,791	2.6%	3.76
Community Health Plan	91,752,544	7,052,010	0	7,052,010	7.7%	5.76
Concentrated Care Inc	2,392,858	1,177,179	0	1,177,179	49.2%	53.18
Contra Costa Health Plan	91,758,001	483,285	0	483,285	0.5%	0.76
Health Plan of the Redwoods	172,882,481	-2,775,015	0	-2,775,015	-1.6%	(2.61)
Heritage Provider Network	230,827,113	143,213	0	143,213	0.1%	0.09
Inter Valley Health Plan	140,005,977	-970,869	0	-970,869	-0.7%	(1.40)
Lifeguard	365,421,264	1,016,708	315,400	701,308	0.2%	0.25
Maxicare	357,495,881	1,459,820	458,000	1,001,820	0.3%	0.30
Molina	185,598,818	17,029,009	6,575,687	9,453,322	5.1%	4.34
National Med	131,333,471	-1,421,547	-523,063	-898,484	-0.7%	(1.47)
One Health	122,896,416	39,412,459	14,428,215	24,984,244	20.3%	32.32
Scan Health Plan	282,754,630	5,057,425	0	5,057,425	1.8%	11.35
Sharp Health Plan	81,117,220	-575,822	0	-575,822	-0.7%	(0.66)
St. Joseph's Provider Network	13,075,883	-2,428,956	0	-6,298,956	-48.2%	(22.66)
Tower Health Plan	71,195,086	6,400,821	-858,924	7,951,426	11.2%	7.13
UCSD Health Plan	11,950,822	-3,751,443	0	-3,751,443	-31.4%	(38.22)
United HealthCare	210,335,328	-7,497,655	-2,733,000	-4,764,655	-2.3%	(2.71)
Universal Care	221,602,962	1,312,154	634,943	677,211	0.3%	0.26
Ventura County	7,967,286	16,791	0	16,791	0.2%	0.20
Watts Health	199,784,000	210,000	0	210,000	0.1%	0.17
Western Health Advantage	38,066,647	-1,926,756	0	-1,926,756	-5.1%	(4.88)
County Health Systems						
Alameda Alliance for Health	90,403,378	13,000,375	0	13,000,375	14.4%	14.11
Inland Empire Health Plan*	141,854,848	2,501,007	0	2,501,007	1.8%	1.52
Kern	57,343,454	13,181,976	0	13,181,976	23.0%	21.87
LA Care (Local Initiative Health Authority)	601,512,182	2,177,558	0	2,177,558	0.4%	0.30
San Francisco Health Plan	32,632,829	1,782,374	0	1,782,374	5.5%	6.19
San Joaquin County Health	55,550,768	6,112,718	0	6,694,573	12.1%	9.87
Santa Clara County Health Authority	55,794,642	4,347,209	0	5,013,811	9.0%	9.82
TOTAL	37,400,773,066	1,276,386,194	460,815,593	810,769,361	2.2%	3.14

Source: Author's analysis of HMO annual statements, Reports 2 and 4. Based on health plan fiscal years ending in 1999.
Financial results and profit (loss) per member per month for these health plans based on total enrollment reported, including PPO, self-funded, dental and Healthy Families.

Average Premium Revenue Per Member Per Month in Commercial HMOs, 1999

California	$120.44, up 7.5%
Colorado	$122.79, up 11.4%
Florida	$131.97, up 10.1%
Illinois	$131.43, up 4.7%
Michigan	$137.09, up 5.6%
Minnesota	$147.14, up 11.0%
Ohio	$129.30, up 5.2%
Texas	$125.48, up 2.9%

In addition, the county-sponsored plans generally had very good financial results. None of them lost money and, as a group, they had net profits of $29.5 million. Two of the county plans, Alameda Alliance and San Joaquin, had margins of 14.4% and 12.1%, respectively.

Exhibit 16 shows the profits and losses of the largest health plan for the past four years. Prudential in California and elsewhere lost money over that time. Other plans made money, but saw their profitability swing widely during those years. For example, HealthNet (including Foundation Health) saw its profits go from $135 million in 1995 down to $6.4 million in 1997, then back up to $94.4 million in 1999.

Premium Revenue Trends

Much of the debate between providers, health plans, and purchasers focuses on the adequacy of the premiums that employers pay and how that translates into payments to providers. To help clarify these issues, researchers calculated the amount of premium revenue that health plans collected on their commercial enrollees for the past three years. That amount was then converted to a per-member-per-month and used to compare health plans with each other and with the results in previous years.

This measure, called revenue yield, can be likened to finding out how many passenger miles an airline flew. It is a more useful measure than surveying employers or health plan CFOs about how much they expect premiums to go up. But there is some uncertainty about how well the California data works here. While in other states, HMOs separate out their revenues for each line of business, in California, it is not always clear if the premium line includes more than commercial premiums. Also, with some of the HMOs, it may not be clear what number of member months to use in the denominator, especially if they have self-funded groups in their member months.

Exhibit 17 compares HMOs on their premium revenue per-member-per-month in 1997, 1998, and

Exhibit 16

Profits and Losses of Largest HMOs, 1996-1999

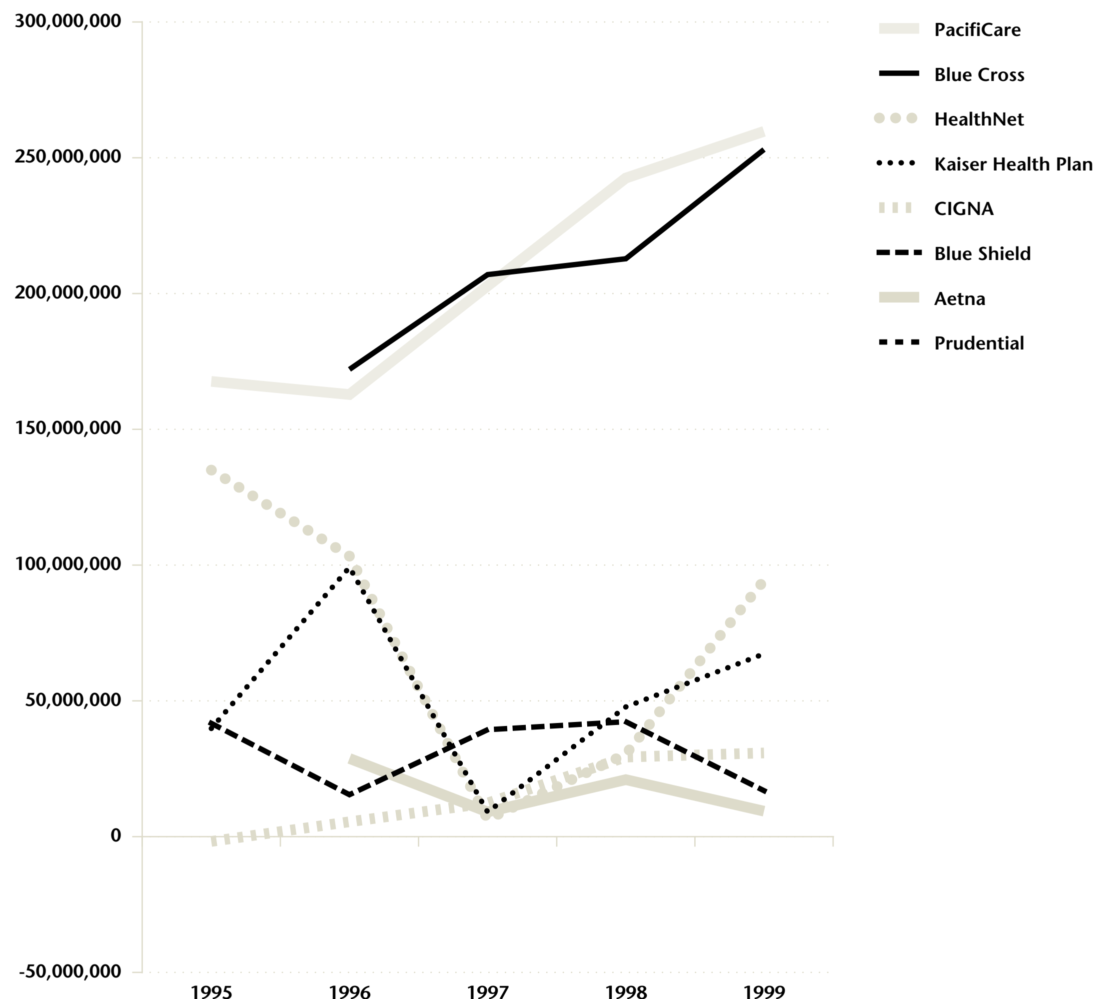


Exhibit 17

California HMO Commercial Premium Revenue, Per Member Per Month, 1997-1999

HMO	1997	1998	1999	Increase
Aetna U.S. Healthcare	112.93	112.53	115.44	2.6%
Blue Cross	108.25	112.91	121.77	7.8%
Blue Shield	104.23	108.43	117.86	8.7%
Health Net	111.08	116.74	124.91	7.0%
Kaiser Permanente	112.54	112.61	122.07	8.4%
PacifiCare	135.37	109.99	116.74	6.1%
Prudential Health Care	109.74	111.68	117.43	5.2%
Chinese Community Health Plan	125.66	135.55	117.44	-13.4%
Health Plan of the Redwoods	108.75	113.19	120.20	6.2%
Inter Valley Health Plan	95.78	93.78	96.09	2.5%
Lifeguard	114.20	119.38	124.26	4.1%
Maxicare	95.94	97.35	103.70	6.5%
National Med	105.44	102.59	107.35	4.6%
One Health Plan	117.08	132.78	153.23	15.4%
Scan Health Plan	51.50	110.71	104.05	-6.0%
Sharp Health Plan	133.88	103.85	107.49	3.5%
United HealthCare	99.49	105.20	116.29	10.5%
Universal Care	86.69	65.41	86.93	32.9%
Western Health Advantage	-	149.19	103.36	-30.7%
TOTAL	111.91	112.00	120.44	7.5%

Source: Author's analysis of HMO annual statements, Reports 2 and 4, for fiscal years ending in 1997 to 1999

1999. On average, California HMOs collected $120.44 per-member-per-month, or 7.5% more than in 1998. In 1999, both Blue Cross and Kaiser collected about $122, up 8%. PacifiCare collected $117 on its commercial enrollees, up 6% from 1998. The average per-member-per-month for 1998 was about a dime more than in 1997, when the average revenue yield was $111.91.

That was not much of an increase in premium revenue at a time of upward pressure on medical costs. Projections for 2001 suggest a larger increase on average.

Exhibit 18 shows the premiums for participants in the PERS HMO and PPO products from 1996 to 2001. Most of the HMO plans increased between 8% and 10% for 2001. Kaiser Permanente is the most popular plan and also one of the most expensive HMOs offered. The state's contribution in 2000 and for the first half of 2001 is $452 per month for family coverage. A family enrolling in Kaiser Permanente would have to add about $73 each month.

Premiums for the PERSChoice PPO product will increase by 23% and the other PPO by about 17% in 2001. Those amounts had been held down in past years by applying fund reserves. Enrollment growth in PERS Choice probably was encouraged by the fact that there was no premium contribution required by the employee. Of course, the PPO benefit design has additional enrollee cost-sharing, but that is only when services are actually used.

How does California compare with other states with regard to premium revenue trends? *Exhibit 19* compares California with seven other states on premium revenue trends for commercial HMOs over the past several years. This analysis does not adjust for demographic differences in the populations of enrollees or for differences in benefit design. An HMO might offer a lower premium increase to an employer that agreed to impose additional enrollee cost-sharing for office visits and prescription drugs. The result would be a slowing of the premium trend.

Based on 1999 premium revenues, California was the lowest of this group of states. Minnesota was the highest in terms of average premium. While most of the states saw average premium revenue increase by about 5% in 1999, Minnesota experienced an increase of 11% in that year, on top of an average increase of 7.3% in 1998.

What is behind this trend in Minnesota? First, the level of concentration by a small number of health plans in the state is important. Having more competition helps hold down price increases.

NCQA Accreditation Status of California HMOs

Aetna U.S. Healthcare, San Diego—Commercial/HMO/POS Combined and Medicare
EXCELLENT

Aetna U.S. Healthcare, South—Commercial/HMO/POS Combined
COMMENDABLE
Medicare
EXCELLENT

Aetna U.S. Healthcare, North—Commercial/HMO/POS Combined and Medicare
COMMENDABLE

Blue Cross of California—Commercial/HMO/POS Combined and Medicare
COMMENDABLE

Blue Shield of California—Commercial/HMO/POS Combined
COMMENDABLE
Medicare/HMO
ACCREDITED

CIGNA HealthCare—Commercial/HMO/POS Combined
COMMENDABLE

Health Net— Commercial/HMO/POS Combined and Medicare
IN PROCESS

Health Plan of the Redwoods—Commercial/HMO
COMMENDABLE
Medicare
EXCELLENT

Inland Empire Health Plan—Medicaid/HMO
COMMENDABLE

Kaiser Foundation, Southern California—Commercial/HMO, Medicaid and Medicare
COMMENDABLE

Kaiser Foundation, Northern California—Commercial/HMO and Medicare
EXCELLENT

Lifeguard, Inc —Commercial/HMO
COMMENDABLE

PacifiCare of California—Commercial/HMO/POS Combined and Medicare
COMMENDABLE

Prudential HealthCare—Commercial/HMO/POS Combined
COMMENDABLE

Universal Care —Commercial/HMO
ACCREDITED

From www.ncqa.com August 2001

Exhibit 18

Family Premiums for Active CalPERS HMO and PPO Plans, 1996-2001

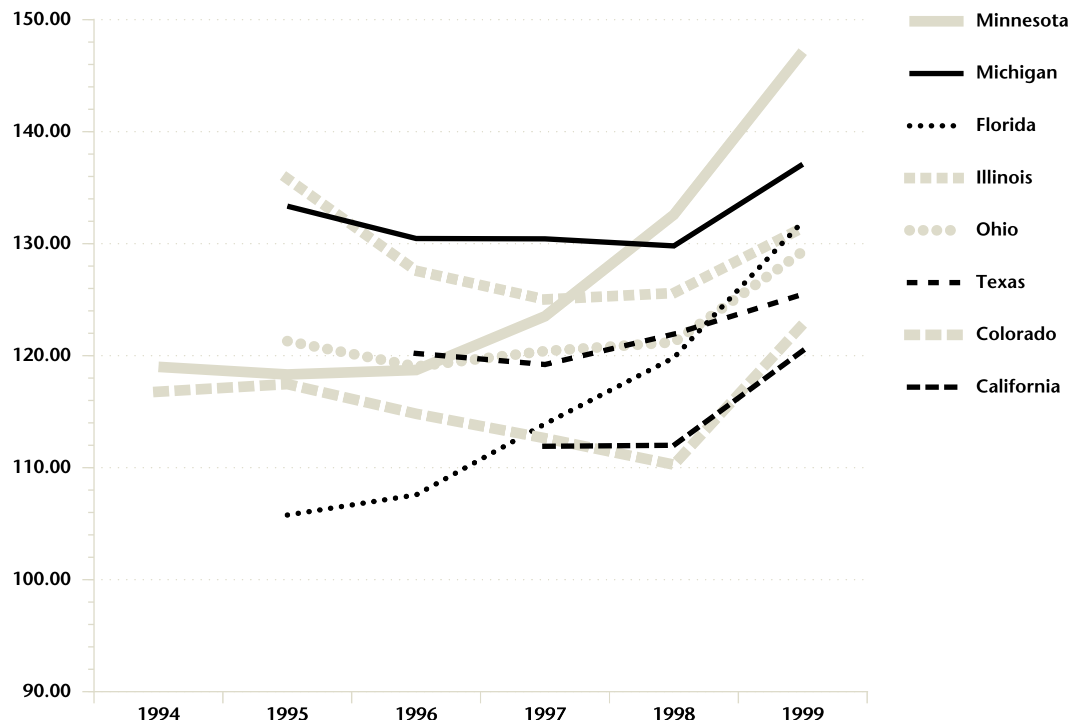
Health Plan	1996	1997	1998	1999	2000	2001	Increase 2000-2001	1996-2001 Average Annual Increase
Aetna U.S. Healthcare	406.80	406.80	420.14	436.11	464.46	504.40	8.6%	4.8%
Blue Shield HMO	406.00	394.00	409.71	442.28	479.87	523.04	9.0%	5.8%
CIGNA	398.06	398.06	410.41	424.77	448.48	481.78	7.4%	4.2%
Health Net	384.80	384.80	403.66	427.48	469.67	512.88	9.2%	6.7%
Health Plan of the Redwoods	395.00	395.00	409.04	431.52	476.83	517.84	8.6%	6.2%
Kaiser Permanente (North)*	393.94	376.87	486.96	428.57	478.56	525.75	9.9%	6.7%
Kaiser Permanente (South)	400.06	394.10						
Lifeguard	413.91	413.91	437.38	457.84	507.81	558.08	9.9%	7.0%
Maxicare	390.00	390.00	391.74	415.24	431.60	460.33	6.7%	3.6%
PacifiCare	407.60	407.60	417.79	428.05	453.73	489.24	7.8%	4.0%
Universal Care					419.87	434.15	3.4%	
PPO plans								
PERS Choice	408.00	400.00	416.00	426.00	452.00	556.00	23.0%	7.3%
PERS Care	666.00	666.00	705.00	710.00	764.00	892.00	16.8%	6.8%
State Contribution	410.00	410.00	410.00	432.00	452.00	452.00		

* Kaiser became a single rate in 1998
Source: Author's analysis of premium information supplied by CalPERS.

Minnesota is unlikely to get new health plan competitors because it is the only state that requires HMOs to be not-for-profit corporations (or local governments). While some people may like that restriction, it presents a significant barrier to entry by new competitors. Second, the average HMO enrollee in Minnesota is using more inpatient hospital care than an enrollee in California. The aver-

Exhibit 19

Commercial Premium Revenue Per-Member-Per-Month For Selected States, 1994-1999



Source: Author's analysis of HMO annual statements for states shown

age rate for commercial HMO enrollees in Minnesota is about 205 days per 1,000 enrollees. There are many commercial HMOs in California whose comparable rate is below 150 days.

Medical Loss Ratios

How do HMOs spend their revenues? In their annual statements to the Department of

Exhibit 20

Medical Loss Ratios for California HMOs, 1997-1999 (Entire Plan)

HMO	1997	1998	1999
Aetna U.S. Healthcare	89.3%	86.4%	87.0%
Blue Cross of California	76.5%	77.9%	77.4%
Blue Shield	78.7%	81.5%	84.0%
Health Net	85.9%	87.9%	86.4%
Kaiser Foundation	96.3%	97.9%	96.4%
PacifiCare	84.5%	84.3%	84.7%
Prudential Health Care	85.5%	88.0%	87.6%
Care 1st Health Plan	75.5%	82.8%	84.6%
Chinese Community Health Plan	76.4%	80.0%	80.9%
Cigna HealthCare	85.4%	83.5%	82.5%
Community Health Group	78.1%	78.1%	86.1%
Community Health Plan	93.6%	93.6%	92.8%
Health Plan of the Redwoods	99.2%	89.7%	89.0%
Heritage Provider Network	84.9%	93.7%	93.7%
Inter Valley Health Plan	87.0%	88.6%	88.2%
Lifeguard	93.8%	85.0%	84.2%
Maxicare	91.9%	88.6%	89.3%
MedPartners Provider Network	84.9%	90.1%	
Molina Medical Centers	93.2%	87.9%	80.5%
Monarch	93.9%	97.2%	
National Med	92.0%	93.1%	90.8%
Omni Healthcare	83.5%	89.6%	
One Health Plan	73.9%	65.0%	54.5%
Primecare Medical Network	97.5%	91.6%	
Priority Plus		93.2%	
Scan Health Plan	79.6%	79.2%	81.2%
Sharp Health Plan	85.5%	87.3%	91.4%
UC San Diego			85.5%
Tower Health Care	70.2%	69.4%	73.8%
United HealthCare	87.5%	94.5%	92.3%
Universal Care	86.7%	88.9%	89.2%
Ventura	95.3%	89.2%	89.3%
VivaHealth (BPS HMO)	83.4%	88.4%	
UHP Healthcare	77.6%	82.1%	82.5%
Western Health Advantage	88.0%	86.1%	84.3%
County Operated Plans			
Alameda Alliance for Health	71.7%	71.7%	79.3%
Contra Costa County Medical Services	93.3%	93.6%	
Inland Empire Health Plan	84.3%	85.8%	89.3%
Kern Health Systems	72.9%	72.8%	67.9%
LA Care (Local Initiative Health Authority)	85.1%	93.9%	94.7%
San Francisco Health Plan	87.4%	84.0%	86.8%
San Joaquin County Health	79.4%	75.3%	79.4%
San Mateo Health Commission		92.3%	81.5%
Santa Clara Family Health Plan	87.4%	84.1%	
TOTAL	87.5%	88.5%	87.8%

Source: Author's analysis of HMO annual statements, Report #2. Calculation is all medical expenses divided by (total revenue less investment income).

Average HMO Medical Loss Ratios, 1999

California	88.2%
Colorado	89.9%
Florida	89.3%
Illinois	88.1%
Michigan	90.9%
Minnesota (commercial only)	92.2%
Ohio	89.7%

People should be cautious in using medical loss ratios and administrative expense percentages to compare health plans. In particular, no one should look at these measures and try to draw conclusions about the relative quality of health plans.

Corporations, HMOs group their expenses under two major headings, Medical/Hospital and Administration. The health plans have a good deal of latitude in allocating expenses between the two categories, so long as the method of allocation is reasonable. A health plan that is sponsored by a hospital can also exercise some latitude in deciding which expenses or revenues are assigned to the health plan and which to the hospital.

What difference does it make? Health plans might act on different incentives to make their administrative expenses look low or to decrease their medical care expenses. A nonprofit health plan may think that a high percentage of revenues spent on medical care reflects well on the health plan and would be well received by the public. For example, some non-profit HMOs in Minnesota take all medical management costs - quality assurance, utilization review, even provider contracting - and put them with the health care costs. Or they might take all expenses of clinic operations, including information systems, and charge those as medical expenses. Some physicians look at medical loss ratios and assume that a high number means more money going to physicians. It can also mean that the health plan has a lot of computer operators or quality assurance nurses and others on staff.

On the other hand, Wall Street analysts look at investor-owned health plans and want to know how low they can keep their medical loss ratios, the percentage of premium income that is spent on medical care. Such an HMO would want to keep that ratio as low as possible and would allocate expenses accordingly.

All this makes a good case for why people should be cautious in using medical loss ratios and administrative expense percentages to compare health plans. In particular, no one should look at these measures and try to draw conclusions about the relative quality of health plans.

For this report, the medical loss ratio was calculated by taking the full amount of medical/hospital expenses for all lines of business and dividing that by the full amount of premium revenue. Investment income was not included in the denominator. Also left out are some HMOs whose statement might include revenue from self-funded plans but not any medical expenses. *Exhibit 20* summarizes the results. The average medical loss ratio over three years ranged from 87.5% to 88.2%. Among the large health plans, Blue Cross had the lowest ratio at about 77%. Kaiser Permanente had the highest.

Capitation Payments

Exhibit 21 compares some of the largest HMOs in California on the extent to which they pay for health care services through capitation arrangements. California does not collect information directly about the use of capitation by health plans and providers. In other states, that is collected as part of the annual HMO statement and is available for analysis. Here, the information about capitation payments is derived from a section of the California HMO report

Exhibit 21

Use of Capitation by Selected California HMOs, 1999

HMO	Health Care Expense	Capitation Expense	Managed Hospital Expense*	Not Capitated or Managed Hospital Expense	% Paid in Capitation	% Paid in Capitation and Managed Hospital
Aetna U.S. Healthcare	971,532,538	942,496,289		29,036,249	97.0%	97.0%
Alameda Alliance for Health	27,738,734	16,141,813		11,596,922	58.2%	58.2%
Blue Cross	4,125,597,000	853,397,000		3,272,200,000	20.7%	20.7%
Blue Shield	2,459,060,000	525,047,000		1,934,013,000	21.4%	21.4%
CIGNA HealthCare**	946,289,000	341,836,000		604,453,000	36.1%	36.1%
Health Net	3,178,402,040	2,545,086,565		633,315,475	80.1%	80.1%
Kaiser Permanente	11,394,981,000	6,767,906,000	2,998,700,000	1,628,375,000	59.4%	85.7%
Maxicare	282,811,433	225,007,209	3,932,782	53,871,442	79.6%	81.0%
National Med	121,229,615	88,829,765		32,399,850	73.3%	73.3%
PacifiCare	5,263,515,777	4,212,619,932	48,371,375	1,002,524,470	80.0%	81.0%
Prudential Health Care	720,443,091	328,181,665		392,261,426	45.6%	45.6%
United HealthCare	192,469,399	88,270,738		104,198,662	45.9%	45.9%

*A few HMOs list a separate amount for managed hospital or institutional expense
**Capitation amount taken from audited financial statement
Source: Author's analysis of HMO annual statements, supplementary page for calculating tangible net equity

in which each HMO calculates its tangible net equity. That is a measure of how much the HMO should have in reserve in assets that are relatively liquid. Capitation is an element because the formula assumes that an HMO that shifts risk to providers though capitation reduces its need for reserves.

Of course, recent experience suggests that is not always the case. With the FPA and MedPartners debacles, the HMOs made their payments to the provider organizations. Later HMOs heard from physicians that they were not being paid and wanted the HMOs to pay them directly. The HMOs' response was that they had already paid once and were not obligated to the physicians to pay a second time.

As shown in the exhibit, Blue Cross and Blue Shield spent about one in every five health care dollars through capitation or what is called managed hospital arrangements. For HMOs like PacifiCare and Health Net, capitation was much more significant, amounting to 80% of their health care expenses.

Administrative Expenses

The other component of health plan expenses is administration, including compensation, marketing and advertising, property costs, and so on. *Exhibit 22* compares health plans on their administrative costs, using three different measures: administrative costs as a percentage of total expenses, as a percentage of total revenues, and on a per-member-per-month basis.

On average, California HMOs spent about 9.8% of their total expenses for administration. Put another way, they spent an average of $13.72 per-member-per-month. Among the large health plans, the range went from $7.28 per-member-per-month at Kaiser Permanente to $20.32 at Blue Shield and $20.66 at Aetna U.S. Healthcare. Again, health plans can allocate these expenses in any reasonable way, so it is important not to conclude too much from these numbers.

Net Worth

Given the volatility of health plan and provider finances, a great deal of attention has been paid to whether health plans and provider organizations have adequate reserves. California requires a health plan to have a deposit of $300,000 held in trust. That would be used to help pay the expenses of rehabilitating or liquidating an insolvent organization.

More significantly state law requires each HMO to maintain tangible net equity, the amount of which will vary because of several factors, including the size of the health plan (measured by health care expenses) and the amount of those expenses that is capitated to physician organizations or hospitals.

For this report, the net worth of each health plan was examined based on its statutory financial statements. Statutory accounting for health plans may vary from Generally Accepted Accounting Principles in significant ways. For example, certain investments that have maturities of more than six months could be classified as current assets under GAAP but might be considered long-term assets under state law.

Exhibit 23 compares HMOs on net worth for 1998-1999 plus two other measures. First, it shows how many weeks of net worth each plan has—that is, how long the plan could continue to pay claims and run the office if no revenue were coming in.

For HMOs like PacifiCare and Health Net, capitation was much more significant, amounting to 80% of their health care expenses.

Average Months of HMO Net Worth, 1999

California	1.26
Colorado	0.97
Florida	0.78
Illinois	0.53
Michigan	0.96
Minnesota	1.69
Ohio	0.78

Then the amount of net worth per member is calculated.

On average, California HMOs had 5.5 weeks of reserves, and $182 in net worth for each member. Of the largest health plans, PacifiCare had the lowest reserves, with about $105 dollars in reserve per-member-per-month. Its general practice has been to leave the minimum amount needed on the balance sheet of the state operations and move as much as possible to the corporate balance sheet. PacifiCare's net worth decreased by $66.2 million in 1999, while CIGNA's net worth went down by $20.7 million. Blue Shield reported having more

Exhibit 22

Administrative Expenses for California HMOs, 1999 (Entire Plan)

HMO	Administrative Expense	As a % of Expenses	As a % of Revenues	Per Member Per Month
Aetna U.S. Healthcare	142,373,781	12.8%	12.7%	20.66
Blue Cross	772,702,000	15.8%	14.5%	17.38
Blue Shield*	500,286,000	16.9%	16.8%	20.32
Health Net	334,474,673	9.5%	9.1%	12.78
Kaiser Health Plan	525,954,000	4.4%	4.4%	7.28
PacifiCare	550,314,006	9.5%	8.8%	19.98
Prudential	113,756,717	14.4%	14.4%	10.11
Chinese Community	2,690,546	18.4%	18.1%	34.69
Community Health Plan	7,026,516	8.3%	7.7%	5.74
Concentrated Care Inc	95,509	7.9%	4.0%	4.31
Contra Costa Health Plan	6,949,210	7.6%	7.6%	10.89
Health Plan of the Redwoods	23,053,104	13.1%	13.3%	21.71
Inter Valley Health Plan	17,938,947	12.7%	12.8%	25.93
Lifeguard	60,434,931	16.6%	16.5%	21.14
Maxicare	38,692,101	10.9%	10.8%	11.64
Molina Medical	20,431,185	12.1%	11.0%	9.39
National Med	14,152,064	10.7%	10.8%	23.08
One Health	16,527,465	19.8%	13.4%	26.96
Scan Health Plan	48,800,205	17.6%	17.3%	109.47
Sharp Health Plan	8,003,109	9.8%	9.9%	9.23
St. Joseph's Provider Network	1,730,033	11.2%	13.2%	6.22
Tower Health Plan	12,255,828	18.9%	17.2%	10.99
UC San Diego Health Plan	5,612,568	35.7%	47.0%	57.18
United HealthCare	25,363,584	11.6%	12.1%	14.47
Universal Care	23,292,575	10.6%	10.5%	8.89
Ventura County	987,328	12.4%	12.4%	11.63
Watts Health	35,180,000	17.6%	17.6%	27.87
Western Health Advantage	7,962,509	19.9%	20.9%	20.16
County Operated Systems				
Alameda Alliance for Health	7,501,080	9.7%	8.3%	8.14
Inland Empire Health Plan	6,436,983	14.6%	11.2%	10.68
LA Care (Local Initiative Health Authority)	13,079,354	9.4%	9.2%	7.93
San Francisco Health Plan	33,749,622	5.6%	5.6%	4.69
San Joaquin County Health	2,967,760	9.6%	9.1%	10.30
Santa Clara Family Health Plan	6,377,536	12.9%	11.5%	9.40
Ventura County	6,480,636	12.6%	11.6%	12.69
TOTAL	3,393,633,465	9.8%	9.4%	13.72

Source: Author's analysis of HMO Annual Statements, Reports 2 and 4

than two months in reserves. Blue Cross added a quarter of a billion dollars to its reserves during 1999, a year in which it had profits of $253 million.

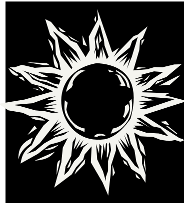
Exhibit 23

California HMO Net Worth, 1998-1999

HMO	1998 Net Worth	1999 Net Worth	Change	Weeks of Net Worth	Net Worth Per Enrollee
Aetna U.S. Healthcare	48,380,233	50,558,577	2,178,344	2.36	79.80
Blue Cross of California	503,885,000	761,276,000	257,391,000	8.08	199.89
Blue Shield	544,901,000	546,650,000	1,749,000	9.61	296.37
CIGNA Healthcare	77,234,005	56,486,674	-20,747,331	2.64	82.19
Health Net	366,080,500	414,251,541	48,171,041	6.13	190.05
Kaiser Foundation	1,223,866,000	1,218,594,000	-5,272,000	5.33	205.30
PacifiCare	309,676,117	243,430,709	-66,245,408	2.18	104.56
Prudential Health Care	43,939,611	55,042,469	11,102,858	3.62	106.74
Care 1st Health Plan	5,222,277	5,924,910	702,633	4.60	26.62
Chinese Community Health Plan	2,602,223	548,279	-2,053,944	1.95	99.51
Community Health Group	13,638,941	15,423,170	1,784,229	9.47	205.06
Concentrated Care Inc	4,324,629	6,942,660	2,618,031	296.97	63.99
Contra Costa Health Plan	532,205	4,808,359	4,276,154	2.74	89.15
Health Plan of the Redwoods	15,692,693	12,917,678	-2,775,015	3.82	147.37
Inter Valley Health Plan	2,739,223	3,568,353	829,130	1.32	56.86
Lifeguard	47,319,630	45,741,251	-1,578,379	6.53	187.19
Maxicare	12,102,584	10,073,040	-2,029,544	1.47	36.62
Molina Medical Centers	11,194,627	20,645,424	9,450,797	6.37	124.46
National Med	5,116,118	13,229,128	8,113,010	5.18	278.47
One Health Plan	21,113,787	30,086,498	8,972,711	18.74	437.11
Scan Health Plan	6,825,274	11,882,699	5,057,425	2.23	298.46
Sharp Health Plan	4,206,818	3,471,870	-734,948	2.21	42.34
Tower Health Plan	12,283,102	15,234,513	2,951,411	12.23	156.21
UC San Diego Health Plan	2,241,170	1,989,726	-251,443	6.59	134.55
United HealthCare	5,085,987	17,314,517	12,228,530	4.13	128.83
Universal Care	7,771,867	8,449,078	677,211	1.99	35.57
UHP Healthcare	19,391,000	19,652,000	261,000	5.12	181.75
Western Health Advantage	13,975	996,698	982,723	1.30	26.71
County Health Systems					
Alameda Alliance for Health	27,751,342	42,226,650	14,475,308	28.37	531.92
Inland Empire Health Plan	7,432,430	9,933,437	2,501,007	3.71	69.42
Kern Health Systems	18,059,813	31,241,789	13,181,976	36.79	659.81
San Francisco Health Plan	3,357,962	5,140,336	1,782,374	8.66	190.22
San Joaquin County Health	10,661,585	17,356,157	6,694,572	18.26	307.30
Santa Clara County Health Authority	1,060,365	6,074,176	5,013,811	6.14	133.07
Ventura County	1,161,902	1,178,693	16,791	7.71	144.95
TOTAL	3,386,865,995	3,708,341,059	321,475,065	5.47	180.81

Source:Author's analysis of HMO Annual Statements, Reports 1-A and 1-B, and Report #2. "Weeks of Net Worth" is calculated as 1999 net worth divided by 1/52 of total expenses (from Report #2).

Data on physician organizations are soft and fluid. The number of physicians listed has probably changed since the day of the survey. Physician groups themselves are constantly reconfiguring, as physicians form new groups or realign with existing ones. Groups go out of business and new ones are formed. Some organizations were created for a single contract and disappeared when that arrangement changed.



III. REGIONAL SUB-MARKETS AND PROVIDER SYSTEMS

Not surprisingly in a state as large and diverse as California, the delivery and financing of health care are markedly different from region to region. The organizational models favored by physicians and hospitals are different. Even the rates that HMOs pay to providers are understood to be higher in some parts of the state and lower in others. Many of the largest HMOs and hospital systems divide the state into northern and southern regions, or carve out separate business regions for Sacramento and San Diego. Indeed, just defining the boundaries of the sub-markets within the state is not something on which all agree.

This section of the report looks at managed market issues in six regions of California, with an emphasis on hospital and physician organizations. The hospital analysis is based on the financial and utilization data that the Office of Statewide Health Planning and Development (OSHPD) collects from hospitals each quarter and year. The data presented here are for hospital reporting years ending between July 1, 1998 and June 30, 1999. The analysis is generally limited to acute care hospitals, and does not include specialty hospitals, such as rehabilitation or behavioral health facilities. Also excluded is information about hospitals on military bases or those operated by the Department of Veterans Affairs.

Each regional analysis includes two tables of hospital data in which the hospitals are grouped in their respective systems. The first table looks at financial performance of the hospitals and systems, comparing their revenues and profitability. The second hospital table compares the hospitals and systems on their inpatient occupancy and payer mix — the proportion of inpatient days paid through Medicare, Medi-Cal, third-party insurers, and other sources. "Third-party payers" is the broad category that includes managed care plans. Note that in the OSHPD data, if a health plan pays for a hospital stay for a senior enrollee, that stay is grouped with stays for the third-party payers and not with Medicare. A similar rule applies to inpatient hospitalizations for a Medi-Cal managed care enrollee.

For three regions—the Bay Area, Los Angeles-Orange, and San Diego—the market share of the major hospital systems and largest independent hospitals is calculated based on the number of inpatient hospital days. An analysis based on hospital discharges or patient revenues might yield a different result.

Each regional section also includes a table listing the major physician organizations in those counties. Where possible the number of primary care and specialty physicians in each organization is shown. Note that physicians who are not part of group practices frequently contract through multiple IPAs, so adding together all the IPA doctor counts would result in a great deal of overlap. The tables also show the number of capitated patients, which usually means the patients for whom the physician organization is accepting risk for professional services.

The information on physician organizations is based on two sources: contacts with certain physician groups in April, May, and June of 2000, and the results of surveys conducted by the consulting firm Cattaneo & Stroud, Inc. (The Cattaneo & Stroud data are in a password-protected section of the firm's Web site, www.cattaneostroud.com) The Cattaneo & Stroud physician data are generally from 1999 and are as estimated and reported by the respondent physician organizations. They are not subject to any external audit.

There are literally hundreds of physician organizations in California, many of them very small, whether measured by physicians or number of patients. Organizations were included in the tables (except for Los Angeles) if they met a threshold of 30,000 or more managed care enrollees, or if they had 70 or more primary care physicians in that region. In the Los Angeles table, physician organizations were included if they had enrollment of at least 40,000 or 100 or more primary care physicians.

Certain major organizations were contacted in April, May, and June of 2000 for enrollment and physician statistics; these are starred with an asterisk in the tables. All other physician group data are from the Cattaneo & Stroud reports. Within the tables, the physician organizations are grouped by structure—IPAs together, medical groups and foundations in their own listings. Distinguishing the different models is important to an understanding of the markets in which physician organizations find themselves.

Many physician groups were reluctant or completely unwilling to disclose information about numbers of patients or participating physicians. Other researchers, including one group supported by the California HealthCare Foundation, have tried to develop a comprehensive set of data on physician organizations, and have run into similar issues.

The reader should be cautioned that data on physician organizations are soft and fluid. The number of physicians listed has probably changed since the day of the survey. Physician groups themselves are constantly reconfiguring, as physicians form new

groups or realign with existing ones. Groups go out of business and new ones are formed. Some organizations were created for a single contract and disappeared when that arrangement changed. Alert readers will notice that some of the names of the physician organizations have changed within the last year.

Finally, a few physician organizations have folded in the past few months while this report was being prepared for publication. For example, the San Mateo IPA, an early and prominent group of physicians in northern California, went out of business in the summer of 2000. So did the Loma Linda Community Medical Group in Southern California.

Two points should be noted on local markets. First, now that some of the hospital systems have bulked up and in some cases established a statewide presence, they are negotiating contracts on behalf of an entire system. For example, patients in the Sacramento area may identify with the Mercy hospitals, but those hospitals are now part of Catholic Healthcare West. CHW did not exist a few years ago, but is now doing battle with Blue Cross and other health plans. (The religious order that owns the Mercy hospitals announced in May 2001 that it would resume management of the hospitals, taking them out of the CHW network.)

Second, although little is said in this section about battles between providers and health plans, it must be noted that in the past few years the rhetoric has become more heated and disputes have been played out more in the public eye. Money and how it is divided between health plans, hospitals, and physicians is the central issue.

San Francisco Bay Area

The analysis of managed care activity in the San Francisco Bay area looks at six counties: Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Santa Clara. Information on physician organizations includes Sonoma County as well. While taking a broad view of the boundaries of this geographic market, it is possible to describe sub-markets for physician and hospital services within the larger area. For example, some San Francisco physician groups sought unsuccessfully to expand into the counties south of the city. In another case, a challenge to a recent hospital merger turned on whether or not hospitals in Alameda County were competing in the same geographic market as those in Contra Costa County.

Hospitals in the area have evolved into six major systems, and the system building continues, although with some unexpected twists. Exhibit 24 shows the location of hospitals in parts of the Bay Area and their system affiliations.

Sutter Health is the largest hospital system in the Bay Area, and it is also a major system in the Sacramento area. It has added hospitals in the past few years and now has 10 facilities in the Bay Area, the largest being the Alta Bates Medical Center in Berkeley and the California Pacific Medical Center, which has two campuses in San Francisco. In 1999, it added Summit Medical Center in Oakland, in a move that was challenged as giving Sutter too much market share in the Bay Area. In the end, the challenges did not prevail and the merger went forward.

One large-scale merger in 1997 brought together the University of California at San Francisco Medical Center with the Stanford University hospitals to form a combined entity with four hospitals and nearly $1.5 billion in annual revenues. The marriage proved to be unpopular and unworkable and was dissolved after two years.

There are nine Kaiser Foundation hospitals in the Bay Area, making it the second-largest system there. In the past few years, Kaiser has considered reducing the number of hospitals rather than making the investment needed to bring all of its facilities up to the seismic safety standards that are now being phased in. However, it decided to continue to operate all of the hospitals.

Exhibit 25 compares the hospitals in the Bay Area on their patient revenues and profitability in the 1998-1999 reporting years. On average, hospitals in the Bay Area had total net margins of 2.8%. As shown in the table, they had net operating revenues of $197.6 million on net patient revenues of $7.6 billion. Total patient charges were $15.8 billion, before discounts negotiated in managed care contracts or taken by Medi-Cal and Medicare, uncompensated care, and so on. In addition, the hospitals in the region added about $30 million in additional net revenue from other sources, such as investment income, philanthropy, and government subsidies.

The average tends to mask the fact that some systems did very well and others had large losses in 1999. The four Tenet Health hospitals in the area reported the highest average profit margin of the systems, 8.5% of total revenues. Sutter Health reported a 4.3% margin, although only one-fourth of that was from operations. Sutter had significant sources of other income. The Sutter hospitals and Catholic Healthcare West (including the Mercy hospitals) got a short-term boost when Kaiser Permanente found itself without adequate capacity in its own hospitals and paid other systems to handle the overflow. However, Kaiser has taken steps

On average, hospitals in the Bay Area had total net margins of about 2%. The average tends to mask the fact that some systems did very well and others had large losses in 1999.

since then to reorganize its hospital capacity and to reduce the expense of referring patients to other systems.

Two major systems reported significant losses—Kaiser Foundation (for all of its Northern California hospitals), and the Columbia HCA hospitals in the San Jose area. The Kaiser hospitals lost $111.4 million, or 8.8% of total revenues. The Columbia hospitals lost $40.4 million, or 10.3% of total revenues.

Exhibit 26 shows average inpatient occupancy rates and payer mix for Bay Area hospitals and systems. On average, the hospitals reported occupancy rates of 67.9% based on staffed beds. (The hospitals can report three different measures of inpatient capacity—licensed beds, available beds, and staffed beds.)

The Columbia hospitals and the Catholic Healthcare West system reported the highest inpatient occupancy rates, 98.7% and 75.6% respectively. At the other end, Tenet Health and Kaiser hospitals had the lowest occupancy rates. Tenet also reports generally below average occupancy in its Florida and Texas hospitals.

On average, third-party payers including HMOs, PPOs, and other commercial insurers, paid 45% of inpatient days. As would be expected, the Kaiser hospitals reported about 87% of their inpatient days covered by third-party payers. Across the region, the Medi-Cal program paid for about 19%

Exhibit 24

Bay Area Hospital Map Legend

System	City
★ **Catholic Healthcare West**	
1 O'Connor Hospital	San Jose
2 Sequoia Hospital	Redwood City
3 Seton Medical Center	Daly City
4 Seton Medical Center - Coastside	Moss Beach
5 St. Francis Memorial Hospital	San Francisco
6 St. Louise Health Center	Gilroy
7 St. Mary's Medical Center	San Francisco
▲ **HCA-The Healthcare Company (Columbia)**	
8 Columbia Good Samaritan Hospital	San Jose
9 Columbia South Valley Hospital	Gilroy
10 San Jose Medical Center	San Jose
11 Columbia San Leandro Hospital	San Leandro
● **Kaiser Foundation Northern California**	
12 Kaiser Foundation - Geary (S.F.)	
13 Kaiser Foundation - Hayward	
14 Kaiser Foundation - Oakland Campus	
15 Kaiser Foundation - Redwood City	
16 Kaiser Foundation - San Rafael	
17 Kaiser Foundation - Santa Clara	
18 Kaiser Foundation - Santa Teresa Comm Hosp	
19 Kaiser Foundation - S. San Francisco	
20 Kaiser Foundation - Walnut Creek	
■ **Sutter Health**	
21 Alta Bates Medical Center	Berkeley
22 California Pacific Medical Center	San Francisco
23 Eden Medical Center	Castro Valley
24 El Camino Hospital	Mountain View
25 Laurel Grove Hospital	Castro Valley
26 Marin General Hospital	San Rafael
27 Mills-Peninsula Medical Center	Burlingame
28 Novato Community Hospital	Novato
29 Sutter Delta Medical Center	Antioch

System	City
● **Tenet Health**	
31 Community Hospital of Los Gatos	Los Gatos
32 Doctors Medical Center - Pinole	Pinole
33 Doctors Medical Center - San Pablo	San Pablo
34 San Ramon Regional Medical Center	San Ramon
○ **University of California**	
36 Medical Center at The University of California San Francisco	San Francisco
37 UC San Francisco/Mt Zion	San Francisco
■ **Other Hospitals**	
38 Mt Diablo Medical Center	Concord
39 Valley Memorial Hospital	Livermore
40 St. Rose Hospital	Hayward
41 Alameda County Medical Center	Oakland
42 Alameda Hospital	Alameda
43 Alexian Brothers Hospital	San Jose
44 Children's Hospital Northern California	Oakland
45 Chinese Hospital	San Francisco
46 Contra Costa Regional Medical Ctr	Martinez
47 Davies Medical Center	San Francisco
48 Guardian Rehab Hospital San Ramon	San Ramon
49 John Muir Medical Center	Walnut Creek
50 Lucile S Packard Children's Hospital at Stanford	Palo Alto
51 San Francisco General Hospital	San Francisco
52 San Mateo General Hospital	San Mateo
53 Santa Clara Valley Medical Center	San Jose
54 St. Luke's Hospital	San Francisco
50 Stanford University Hospital	Stanford
55 Summit Medical Center	Oakland
56 Washington Hospital - Fremont	Fremont
TOTAL	

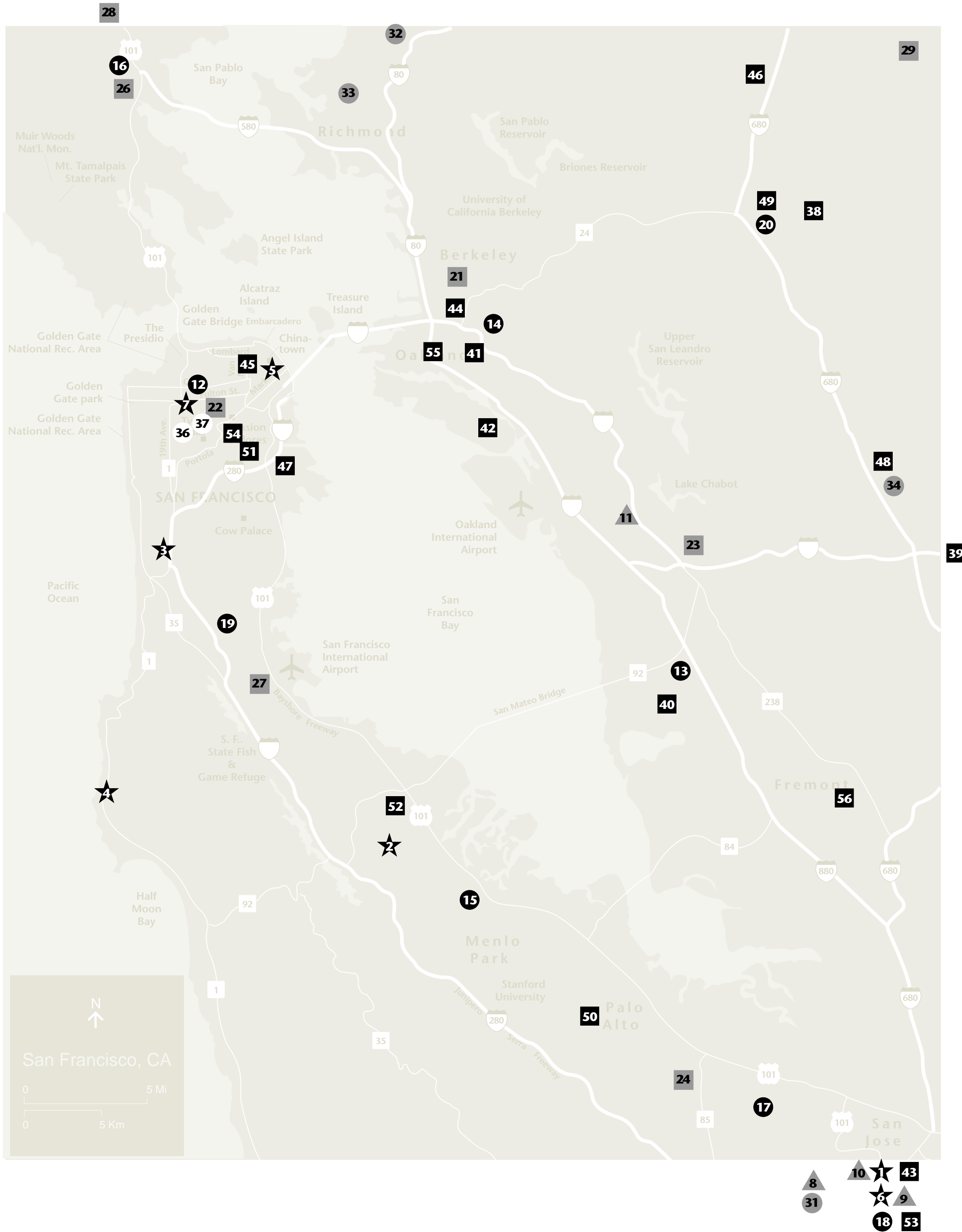
of inpatient days, but the proportion was much higher for several safety net hospitals, including the Alameda County Medical Center and general hospitals in San Mateo and Santa Clara.

The inpatient days data were used to calculate the inpatient market share in the Bay Area for hospital systems in these six counties. *Exhibit 27* shows that Sutter, Kaiser Foundation, and Catholic Healthcare West together accounted for about 46% of the inpatient days in the region. An examination of smaller geographic areas would show, for example, that Columbia HCA had a larger share of the market in the San Jose area.

As described in Section II, a variety of sources were used to estimate HMO enrollment and market share within the same regional borders as the hos-

Exhibit 24

Bay Area Hospitals and Systems



pitals. Certain assumptions were applied in order to focus on insured enrollment in the plans and to exclude groups in self-funded arrangements. *Exhibit 28* shows an estimate of HMO market share in the San Francisco Bay Area. Kaiser is by far the largest, with nearly 40% of all HMO enrollees. Blue Cross (at 13.5%) and Blue Shield (at 11.2%) are a distant second and third.

Exhibit 25

Revenues and Profitability for Bay Area Hospitals

System/Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operations	Total Margin	% of Total Revenue
Catholic Healthcare West		**570,156,782**	**599,090,354**	**(2,945,016)**	**3,853,499**	**0.6%**
O'Connor Hospital	San Jose	106,820,341	111,798,326	(2,988,732)	3,063,425	2.7%
Sequoia Hospital	Redwood City	117,098,300	115,634,982	3,807,475	(2,122,263)	-1.7%
Seton Medical Center	Daly City	134,809,655	138,098,856	1,687,504	1,691,300	1.2%
Seton Medical Center - Coastside	Moss Beach	7,320,446	9,117,466	(1,692,501)	(1,620,699)	-21.6%
St. Francis Memorial Hospital	San Francisco	73,624,360	72,354,848	7,578,629	16,222,037	17.6%
St. Louise Health Center	Gilroy	13,564,621	18,293,415	(4,546,629)	(17,161,838)	-104.9%
St. Mary's Medical Center	San Francisco	116,919,059	133,792,461	(6,790,762)	3,781,537	2.7%
HCA-The Healthcare Company (Columbia)		**387,808,132**	**431,925,517**	**(40,995,451)**	**(40,352,153)**	**-10.3%**
Columbia Good Samaritan Hospital	San Jose	188,465,330	211,985,009	(22,243,693)	(21,864,206)	-11.5%
Columbia South Valley Hospital	Gilroy	24,256,364	32,587,280	(8,201,481)	(8,161,364)	-33.4%
San Jose Medical Center	San Jose	117,359,608	129,236,610	(10,352,483)	(9,752,573)	-8.2%
Columbia San Leandro Hospital	San Leandro	57,726,830	58,116,618	(197,794)	(574,010)	-1.0%
Kaiser Foundation Northern California*		**1,256,093,175**	**1,375,440,229**	**(111,442,732)**	**(111,442,732)**	**-8.8%**
Sutter Health		**1,206,542,501**	**1,232,404,430**	**17,477,343**	**55,490,313**	**4.3%**
Alta Bates Medical Center	Berkeley	292,872,841	313,981,991	(7,108,876)	(2,478,694)	-0.8%
California Pacific Medical Center	San Francisco	301,345,822	301,012,904	7,485,268	26,681,655	8.1%
Eden Medical Center	Castro Valley	66,225,053	67,032,940	1,132,320	2,058,274	3.0%
El Camino Hospital	Mountain View	161,426,055	173,176,516	684,797	9,394,419	5.2%
Laurel Grove Hospital	Castro Valley	7,931,699	8,175,391	(200,364)	(61,613)	-0.8%
Marin General Hospital	San Rafael	113,103,810	108,522,036	6,133,197	6,210,956	5.2%
Mills-Peninsula Medical Center	Burlingame	182,521,340	183,960,840	4,405,605	7,260,472	3.7%
Novato Community Hospital	Novato	27,046,373	23,972,009	3,185,761	2,996,569	11.0%
Sutter Delta Medical Center	Antioch	54,069,508	52,569,803	1,759,635	3,428,275	6.1%
Tenet Health		**248,646,973**	**228,122,893**	**21,959,976**	**21,382,919**	**8.5%**
Community Hospital of Los Gatos	Los Gatos	76,065,119	65,203,585	11,172,427	10,407,112	13.3%
Doctors Medical Center - Pinole	Pinole	44,963,726	41,214,962	3,959,165	3,767,750	8.3%
Doctors Medical Center - San Pablo	San Pablo	81,215,069	76,997,787	4,856,701	5,072,453	6.2%
San Ramon Regional Medical Center	San Ramon	46,403,059	44,706,559	1,971,683	2,135,604	4.5%
University of California		**568,682,313**	**598,932,337**	**(6,592,763)**	**(7,138,603)**	**-1.2%**
Medical Center at The University of California San Francisco	San Francisco	474,692,139	473,798,542	21,768,656	22,120,104	4.5%
UC San Francisco/Mt Zion	San Francisco	93,990,174	125,133,795	(28,361,419)	(29,258,707)	-29.1%
Other Hospitals		**3,364,817,288**	**3,218,781,509**	**320,190,421**	**305,764,638**	**8.5%**
Mt Diablo Medical Center	Concord	128,461,338	135,262,136	(5,450,255)	1,025,601	0.7%
Valley Memorial Hospital	Livermore	90,923,540	89,294,536	3,073,837	5,697,314	6.0%
St. Rose Hospital	Hayward	47,875,719	51,169,935	(2,626,241)	(2,359,431)	-4.8%
Alameda County Medical Center	Oakland	338,731,438	205,320,045	142,558,542	147,593,332	41.8%
Alameda Hospital	Alameda	35,066,021	34,716,117	471,993	1,810,511	5.0%
Alexian Brothers Hospital	San Jose	93,548,158	101,578,722	(7,077,596)	(3,852,132)	-3.8%
Children's Hospital Northern California	Oakland	151,076,121	183,450,113	2,870,117	715,279	0.4%
Chinese Hospital	San Francisco	28,569,689	28,493,393	421,869	1,223,818	4.1%
Contra Costa Regional Medical Ctr	Martinez	153,205,010	177,435,052	(3,997,850)	2,875,507	1.5%
Davies Medical Center	San Francisco	29,854,375	38,327,886	(6,630,578)	(18,858,133)	-54.0%
Guardian Rehab Hospital San Ramon	San Ramon	10,839,041	10,983,287	(113,743)	(113,743)	-1.0%
John Muir Medical Center	Walnut Creek	187,996,435	203,898,765	8,678,752	5,476,947	2.6%
Lucile S Packard Children's Hospital at Stanford	Palo Alto	196,173,823	198,283,825	2,441,342	16,678,757	7.8%
San Francisco General Hospital	San Francisco	381,083,497	307,150,264	75,224,756	(5,455,070)	-1.8%
San Mateo General Hospital	San Mateo	76,615,226	103,124,361	(23,575,447)	(1,124,982)	-1.1%
Santa Clara Valley Medical Center	San Jose	498,610,184	373,248,302	131,451,947	137,371,076	26.8%
St. Luke's Hospital	San Francisco	81,678,034	82,444,390	498,617	2,348,210	2.8%
Stanford University Hospital	Stanford	510,387,678	549,390,788	6,113,848	1,775,351	0.3%
Summit Medical Center	Oakland	180,890,792	209,127,127	(12,744,655)	(1,383,019)	-0.7%
Washington Hospital - Fremont	Fremont	143,231,169	136,082,465	8,601,166	14,319,445	9.5%
TOTAL		7,602,747,164	7,684,697,269	197,651,778	227,557,881	2.8%

*Financial data for entire northern region of Kaiser Foundation hospitals
Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)

Exhibit 26

Occupancy and Payer Mix for Bay Area Hospitals

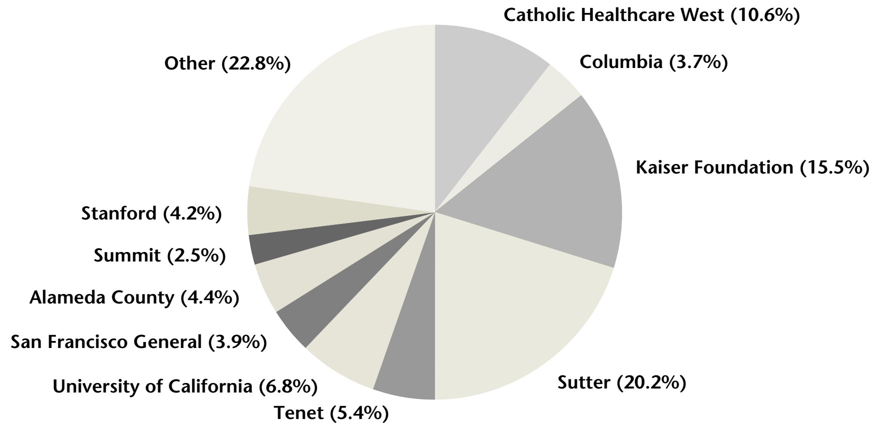
System/Hospitals	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% Other 3d Parties	% County Indigent	% Other Payers
Catholic Healthcare West	**1,272**	**351,138**	**75.6%**	**40.1%**	**14.7%**	**41.4%**	**0.0%**	**3.8%**
O'Connor Hospital	134	51,246	104.8%	51.4%	6.4%	40.6%	0.0%	1.6%
Sequoia Hospital	298	50,933	46.8%	38.7%	2.0%	58.3%	0.0%	1.1%
Seton Medical Center	209	82,391	108.0%	36.0%	29.6%	31.8%	0.0%	2.6%
Seton Medical Center - Coastside	117	40,679	95.3%	3.0%	11.0%	74.7%	0.0%	11.2%
St. Francis Memorial Hospital	221	44,790	55.5%	54.6%	12.9%	28.1%	0.0%	4.4%
St. Louise Health Center	34	8,455	68.1%	43.5%	8.4%	44.6%	0.0%	3.4%
St. Mary's Medical Center San Francisco	259	72,644	76.8%	49.2%	16.4%	30.1%	0.0%	4.3%
HCA-The Healthcare Company (Columbia)	**450**	**175,921**	**98.7%**	**36.6%**	**7.6%**	**52.6%**	**0.0%**	**3.2%**
Columbia Good Samaritan Hospital	230	89,568	98.3%	26.2%	4.3%	68.6%	0.0%	0.9%
Columbia South Valley Hospital	44	16,435	94.3%	50.7%	10.8%	36.6%	0.0%	1.9%
San Jose Medical Center	121	47,996	100.2%	38.3%	14.8%	37.8%	0.0%	9.1%
Columbia San Leandro Hospital	55	21,922	100.7%	64.6%	2.6%	31.9%	0.0%	0.8%
Kaiser Foundation	**1,872**	**362,486**	**53.1%**	**12.1%**	**0.2%**	**86.9%**	**0.0%**	**0.7%**
Kaiser Foundation - Geary (S.F.)	255	46,282	49.7%	11.4%	0.2%	87.8%	0.0%	0.6%
Kaiser Foundation - Hayward	212	46,303	59.8%	10.2%	0.1%	89.1%	0.0%	0.7%
Kaiser Foundation - Oakland Campus	220	42,242	52.6%	19.4%	0.8%	78.7%	0.0%	1.0%
Kaiser Foundation - Redwood City	208	29,360	38.7%	12.0%	0.1%	87.1%	0.0%	0.8%
Kaiser Foundation - San Rafael	120	17,613	40.2%	15.5%	0.7%	83.1%	0.1%	0.7%
Kaiser Foundation - Santa Clara	287	57,197	54.6%	10.1%	0.1%	89.2%	0.0%	0.6%
Kaiser Foundation - Santa Teresa Comm Hosp	228	40,482	48.6%	9.7%	0.2%	89.4%	0.0%	0.7%
Kaiser Foundation - S. San Francisco	111	20,731	51.2%	12.9%	0.1%	86.0%	0.1%	0.9%
Kaiser Foundation - Walnut Creek	231	62,276	73.9%	11.6%	0.1%	87.9%	0.0%	0.5%
Sutter Health	**2,433**	**574,705**	**64.8%**	**32.6%**	**13.8%**	**48.2%**	**0.5%**	**4.9%**
Alta Bates Medical Center	519	139,771	73.0%	26.8%	28.1%	40.3%	0.6%	4.1%
California Pacific Medical Center	774	151,417	53.6%	28.4%	7.7%	56.0%	0.0%	7.9%
Eden Medical Center	196	41,027	59.6%	38.0%	7.1%	39.5%	0.0%	15.4%
El Camino Hospital	286	73,346	70.5%	32.8%	8.9%	57.1%	0.0%	1.2%
Laurel Grove Hospital	42	9,038	61.3%	53.5%	5.8%	40.5%	0.0%	0.1%
Marin General Hospital	109	38,869	97.7%	40.6%	12.8%	39.2%	4.9%	2.4%
Mills-Peninsula Medical Center	355	88,513	68.3%	33.6%	12.3%	52.5%	0.1%	1.5%
Novato Community Hospital	33	11,029	91.6%	61.8%	3.3%	32.4%	1.1%	1.5%
Sutter Delta Medical Center	119	21,695	49.9%	44.9%	10.9%	40.1%	0.0%	4.1%
Tenet Health	**645**	**120,400**	**51.1%**	**39.1%**	**17.0%**	**41.0%**	**0.3%**	**2.6%**
Community Hospital of Los Gatos	153	34,104	61.1%	45.3%	13.7%	39.7%	0.0%	1.3%
Doctors Medical Center - Pinole	136	34,036	68.6%	38.7%	23.2%	37.1%	0.0%	1.1%
Doctors Medical Center - San Pablo	233	35,685	42.0%	38.1%	21.5%	33.6%	1.1%	5.6%
San Ramon Regional Medical Center	123	16,575	36.9%	29.2%	1.2%	67.9%	0.0%	1.6%
University of California	**816**	**148,791**	**60.0%**	**29.3%**	**21.0%**	**47.0%**	**1.0%**	**1.6%**
Medical Center at UC San Francisco	451	108,717	79.3%	21.1%	24.1%	51.7%	1.2%	1.9%
UC San Francisco Mt Zion	365	40,074	36.1%	51.6%	12.7%	34.3%	0.4%	1.0%
Other Hospitals	**4,563**	**1,198,721**	**73.9%**	**27.3%**	**30.3%**	**30.9%**	**5.7%**	**5.8%**
Mt Diablo Medical Center	153	51,880	92.9%	39.9%	4.2%	53.6%	0.3%	1.9%
Valley Memorial Hospital	88	31,934	99.4%	44.7%	5.0%	49.6%	0.0%	0.8%
St. Rose Hospital	175	34,562	54.1%	39.2%	25.5%	32.3%	0.0%	3.0%
Alameda County Medical Center	535	116,545	59.7%	10.8%	69.2%	6.6%	7.5%	5.8%
Alameda Hospital	102	19,092	51.3%	46.3%	7.2%	44.3%	0.0%	2.2%
Alexian Brothers Hospital	188	46,796	68.2%	31.8%	28.7%	35.0%	0.1%	4.4%
Children's Hospital Med Ctr Northern California	204	55,306	74.3%	0.1%	38.1%	59.3%	0.0%	2.5%
Chinese Hospital	59	11,253	52.3%	51.0%	11.1%	36.0%	0.0%	1.9%
Contra Costa Regional Medical Ctr	119	43,364	99.8%	26.0%	36.5%	17.1%	20.0%	0.4%
Davies Medical Center	85	16,182	90.7%	55.6%	17.7%	22.3%	0.2%	4.2%
Guardian Rehab Hospital San Ramon	80	16,387	56.1%	55.1%	2.1%	29.5%	0.0%	13.4%
John Muir Medical Center	210	72,755	94.9%	39.8%	7.2%	51.5%	0.3%	1.1%
Lucile S Packard Children's Hosp at Stanford	214	56,671	72.6%	0.6%	33.2%	65.2%	0.0%	1.0%
San Francisco General Hospital	475	161,205	93.0%	14.6%	37.7%	3.7%	18.5%	25.6%
San Mateo General Hospital	213	61,022	78.5%	19.1%	57.0%	15.4%	5.8%	2.7%
Santa Clara Valley Medical Center	428	85,657	54.8%	14.3%	46.1%	22.9%	16.7%	0.0%
St. Luke's Hospital	146	52,745	99.0%	30.4%	43.4%	24.0%	0.0%	2.3%
Stanford University Hospital	503	95,629	62.5%	40.5%	4.7%	47.3%	2.3%	5.2%
Summit Medical Center	307	109,499	97.7%	47.6%	16.7%	34.6%	0.0%	1.1%
Washington Hospital - Fremont	279	60,237	59.2%	39.2%	14.6%	42.7%	0.0%	3.5%
Total	**12,051**	**2,932,162**	**67.9%**	**29.1%**	**19.1%**	**45.0%**	**2.5%**	**4.3%**

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)

The predominant type of physician organization in the Bay Area is the IPA. The two largest are the Brown & Toland group and Hill Physicians.

Exhibit 27

Market Share of Bay Area Hospital Systems



*Financial data for entire northern region of Kaiser Foundation hospitals
Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)

A few competitors chose to exit Northern California. As the hospital systems have grown, they have been able to negotiate a shift from capitation to per diems and other forms of payment. Rather than pay higher rates to the hospitals, some have chosen to leave the market. They tried to argue to the hospitals that it was in their interest to do business with more competing health plans. The hospitals did not buy that argument and may have thought that dealing with fewer health plans would reduce their administrative burden.

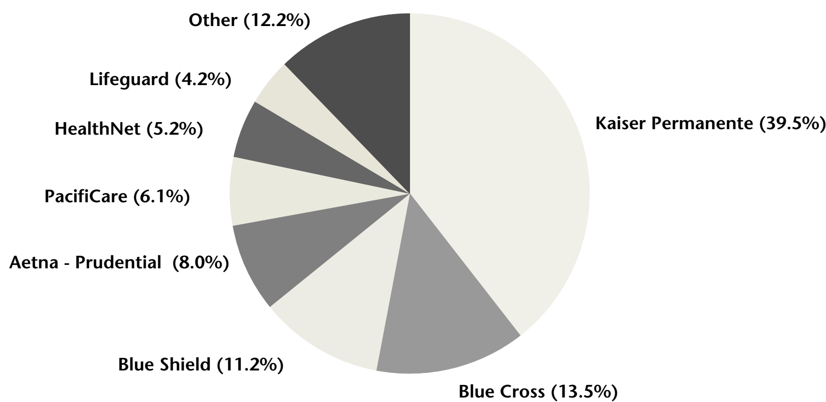
Different models of Medi-Cal managed care are used in Bay Area counties. Four counties — Alameda, Contra Costa, Santa Clara, and San Francisco—have a two-plan arrangement for Medi-Cal managed care. San Mateo operates a county-organized health system. About 40%-45% of seniors in these counties were enrolled in Medicare + Choice plans as of January 2000. Several plans have announced withdrawals for 2001, but seniors will still have a choice of plans in all of the counties.

There are only a few large medical group practices in the Bay Area. The largest is the Permanente Medical Group, which serves enrollees in the Kaiser Foundation Health Plan. Two groups, the Muir/Mt. Diablo Health Network and the Palo Alto Medical Foundation, are organized as California medical foundations. *Exhibit 29* provides an overview of the largest physician organizations in the Bay Area.

The predominant type of physician organization in the Bay Area is the IPA. The two largest are the Brown & Toland group and Hill Physicians. Brown & Toland was formed by combining a community IPA tied to California Pacific Medical Center with the faculty practice group at the University of California at San Francisco. Brown & Toland came close to financial collapse at one point, after an unsuccessful attempt to expand into suburban areas and after taking full capitation risk under a limited Knox-Keene health plan license. It has retreated from those strategies and is focusing on quality initiatives. It won a Blue Ribbon award from the Pacific Business Group on Health in 2000, as did Hill Physicians, an IPA based in San Ramon. Hill Physicians has ties to Catholic Healthcare West, because CHW has an ownership interest in the company that provides management services to the IPA. Two related physician groups, the San Mateo IPA and the San Francisco IPA, went into bankruptcy in 2000.

Exhibit 28

Estimated Market Share for Bay Area HMOs



Source: Author's estimates based on extrapolation from of HMO Annual Statements for years ending in 1999; Medi-Cal reports from Department of Health Services and Medicare reports from Health Care Financing Administration

Exhibit 29

Bay Area Physician Organizations

Name of Physician Organization	Estimated Enrollment	# of Primary Care Physicians	# of Specialists	Management Service Organization	Notes
Medical Groups					
Bay Valley Medical Group, Inc.	18,000	108	155	Bay Valley Management Group	Includes IPA panel
Camino Medical Group, Inc.	94,000	92	248	Camino Medical Group Inc.	With contract referral specialists
Contra Costa Regional Medical Center*	41,200	71	50	Contra Costa County Government	
John Muir/Mt. Diablo Health Network*	60,000	123	300	John Muir/ Mt. Diablo Network Foundation	Foundation model, includes IPA
The Permanente Medical Group*	1,581,839	N/A	N/A	The Permanente Medical Group, Inc	
Palo Alto Medical Foundation*					
	65,220	100	116	Palo Alto Medical Foundation	Foundation Model
San Jose Medical Group*	175,000	110	120	San Jose Medical Group Management	Includes IPA type panel
Professional Group Valley Medical Center*	41,200	100	120	Santa Clara Valley Medical Center	
Stanford Health Services*	52,000	75	300	Stanford Health Services	Includes referral specialist contractors
IPAs					
Affinity*	60,879	125	600	North American Medical Management	
Alta Bates Medical Group, Inc*	97,312	209	392	Alta Bates Medical Resources	
Brown and Toland	200,000	800	1,200	Brown and Toland Physician Services Organization	
Children First Medical Group, Inc	14,000	115	161	Children First HealthCare Network	
Chinese Community Health Care Association Medical Group, Inc	15,300	92	91	Chinese Health Plan	
Clinical Practices Group	2,200	100	200	San Francisco City and County Government	IPA of Community Health Centers/Group Practices
Hill Physicians*	213,597	411	763	PriMed	
Mills-Peninsula Medical Group, Inc.*	60,000	118	180	Mills-Peninsula Medical Group, Inc.	
Pacific Healthcare Medical Group, Inc.*	38,300	162	324	Pacific HealthCare Inc.	
Redwood Empire Medical Group	42,700	163	202	Redwood Health Services	
San Mateo IPA/San Francisco IPA*				Individual Practice Association (MSO)	
San Mateo	66,000	177	374		
San Francisco	14,000	139	393		
Santa Clara County IPA*	135,000	300	500	Pacific Partners Management Services	
Summit Medical Group	2,000	99	285	Summit Medical Center	

Includes San Mateo, Santa Clara, Sonoma, Marin, Alameda, Contra Costa, and San Francisco Counties

Source: Author's analysis of Cattaneo & Stroud, Inc., "Medical Group Units Sorted Alphabetically by County," April 2000. Accessed through password-protected area of website, www.cattaneostroud.com
For asterisked groups, the source is our own contacts in April, May and June of 2000

On average, Sacramento area hospitals posted profits of 6.7% in 1998/1999, better than in the Bay Area.

Sacramento

The Sacramento area used to be relatively isolated, which made it an attractive region in which to market health plans. Given the rapid growth of the eight-county region, it has extended its economic reach north toward Redding and further west on the I-80 corridor.

As the health plans grew, the hospitals sought to build up their systems to counter the strength of the health plans. Four hospital groups dominate the region: Catholic Healthcare West, Sutter Health, Kaiser Foundation (with two Sacramento hospitals), and the University of California-Davis Medical Center. CHW and Sutter each have about one-third of the inpatient market share for the region.

Exhibit 30 compares Sacramento area hospitals on their revenues and profitability. On average, hospitals in the area posted profits of 6.7% in 1998/1999, better than in the Bay Area. Hospitals made about 4% on operations and also added other revenues. Sutter and the University of California-Davis had the strongest margins. Catholic Healthcare West lost money on operations and had an overall margin of only 2.5%.

Inpatient occupancy for Sacramento area hospitals was 66.2% in 1999. The two Kaiser Foundation hospitals, as in the Bay Area, had occupancy of about 51%.

Exhibit 31 compares occupancy rates and payer mix for hospitals in this region for 1998/1999. About 41% of inpatient days were paid through third-party payers such as HMOs. There is no county general hospital in Sacramento. Medi-Cal accounted for an average of 21% of inpatient days, higher at Methodist Hospital and the University of California-Davis Medical Center.

HMOs seem to be attracted to state capital cities, even if they are in smaller metropolitan areas. That is true in Austin, TX, and Madison, WI, and it is also true in Sacramento, where ten commercial HMOs compete.

Exhibit 30

Revenues and Profitability for Sacramento Hospitals

System/Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operations	Total Margin	% of Total Revenue
Catholic Healthcare West		**582,497,181**	**610,003,287**	**(11,307,652)**	**15,871,158**	**2.5%**
Mercy General Hospital	Sacramento	191,237,491	200,967,043	(1,541,967)	6,730,000	3.2%
Methodist Hospital of Sacramento	Sacramento	62,282,930	73,405,934	(10,222,056)	(2,250,000)	-3.1%
Mercy San Juan Hospital	Carmichael	164,696,845	174,181,677	(5,703,017)	(271,536)	-0.2%
Sierra Nevada Memorial Hospital	Grass Valley	59,937,153	54,603,334	5,957,780	10,755,550	16.3%
Woodland Memorial Hospital	Woodland	70,910,031	76,320,000	(2,863,969)	(2,136,000)	-2.9%
Mercy Hospital - Folsom	Folsom	33,432,731	30,525,299	3,065,577	3,043,144	9.0%
Kaiser*						
Sutter Health		**493,551,486**	**492,062,530**	**21,009,786**	**28,427,377**	**5.4%**
Sutter General Hospital	Sacramento	145,153,813	145,503,386	6,192,680	7,809,777	5.1%
Sutter Memorial Hospital	Sacramento	151,363,204	153,851,049	7,979,488	11,465,873	6.9%
Sutter Roseville Medical Center	Roseville	114,175,407	110,053,115	5,346,056	6,625,877	5.6%
Sutter Auburn Faith Hospital	Auburn	44,328,304	42,820,148	2,104,468	2,811,061	6.2%
Sutter Center For Psychiatry	Sacramento	11,234,530	12,170,249	(639,386)	(595,963)	-5.1%
Sutter Davis Hospital	Davis	27,296,228	27,664,583	26,480	310,752	1.0%
Other		**878,647,053**	**868,706,955**	**76,298,513**	**97,440,668**	**10.0%**
University of California Davis Medical Center	Sacramento	631,939,263	603,320,650	62,627,330	71,530,712	10.6%
Fremont Hospital - Yuba City	Yuba City	47,026,507	44,024,173	3,582,959	8,482,960	16.1%
Rideout Memorial Hospital	Marysville	58,203,669	55,494,107	3,257,481	8,054,856	12.7%
Marshall Hospital	Placerville	54,160,203	57,647,508	(3,036,852)	(3,323,717)	-5.9%
Barton Memorial Hospital	So. Lake Tahoe	54,679,437	51,393,871	4,069,777	4,642,612	8.3%
Tahoe Forest Hospital	Truckee	32,637,974	32,222,195	1,043,294	3,298,721	8.7%
Shriners Hospital - Northern Calif.	Sacramento	-	24,604,451	4,754,524	4,754,524	16.2%
Sierra Valley District Hospital	Loyalton	2,644,165	3,026,179	(359,958)	(260,097)	
Total		**1,954,695,720**	**1,970,772,772**	**86,000,647**	**141,739,203**	**6.7%**

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)
*Data for Kaiser hospitals incorporated in Exhibit 25 for northern California

About two-thirds of the two million people in the region were enrolled in an HMO at the end of 1999. Kaiser Permanente is the largest HMO in the area, with more than half a million enrollees. Health Net, Blue Cross, Blue Shield, and PacifiCare also have significant enrollment in those eight counties. Sacramento operates a geographic managed care arrangement for about 153,000 Medi-Cal enrollees. Blue Cross has the largest Medi-Cal plan in Sacrament.

Medical group practices are important in the Sacramento area. There are four large group practices, including the medical group at University of California-Davis Medical Center. *Exhibit 31* describes the major physician organizations in the area. Hill Physicians is the largest IPA, followed by an IPA affiliated with the Sutter system.

Because the Sacramento area is distinct geographically and otherwise, and because it has relatively strong provider systems, it has been mentioned as a possible site for a demonstration project by California PERS to test the idea of direct contracting with medical groups and IPAs. For the same reasons, San Diego is also mentioned as a possible site for direct contracting. The Sacramento-area providers who were interviewed for this report all expressed interest in the idea, but wanted to understand more about the risk arrangements that would be used.

Some of the physicians here are organized into foundations or other entities that have close ties with hospital systems. In some cases, the hospital system negotiates with managed care plans on behalf of the foundation doctors and affiliated IPAs. That raises the question of what happens when the

Exhibit 31

Occupancy and Payer Mix for Sacramento Hospitals

System/Hospitals	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% Other 3d Parties	% County Indigent	% Other Payers
Catholic Healthcare West	**1356**	**298182**	**60.2%**	**31.1%**	**16.5%**	**50.7%**	**1.0%**	**0.7%**
Mercy General Hospital	386	86,868	61.7%	27.9%	8.0%	62.2%	1.2%	0.7%
Methodist Hospital of Sacramento	349	77,392	60.8%	20.3%	34.7%	43.9%	0.4%	0.7%
Mercy San Juan Hospital	341	79,215	63.6%	31.7%	13.0%	54.1%	1.1%	0.1%
Sierra Nevada Memorial Hospital	121	27,079	61.3%	72.0%	6.5%	18.2%	2.1%	1.3%
Woodland Memorial Hospital	104	15,460	40.7%	34.2%	17.3%	45.1%	0.8%	2.6%
Mercy Hospital - Folsom	55	12,168	60.6%	24.4%	5.3%	68.8%	1.2%	0.3%
Kaiser Foundation	**657**	**121,552**	**50.7%**	**12.2%**	**0.3%**	**86.9%**	**0.0%**	**0.6%**
Kaiser Foundation - Sacramento	453	85,465	51.7%	12.2%	0.3%	87.0%	0.0%	0.6%
Kaiser Foundation - South Sacramento	204	36,087	48.5%	12.3%	0.5%	86.5%	0.0%	0.7%
Sutter	**1,058**	**272,572**	**70.6%**	**34.8%**	**16.6%**	**45.2%**	**1.0%**	**2.4%**
Sutter General Hospital	406	106,535	71.9%	35.4%	19.4%	43.3%	1.3%	0.6%
Sutter Memorial Hospital	295	71,833	66.7%	16.9%	23.4%	58.1%	0.7%	0.9%
Sutter Roseville Medical Center	168	47,391	77.3%	56.2%	8.2%	26.2%	0.3%	9.1%
Sutter Auburn Faith Hospital	72	23,856	90.8%	52.4%	4.0%	41.1%	1.1%	1.4%
Sutter Center For Psychiatry	69	15,638	62.1%	22.4%	9.5%	66.5%	0.0%	1.6%
Sutter Davis Hospital	48	7,319	41.8%	33.8%	18.8%	36.4%	6.1%	5.0%
Other	**1,112**	**295,057**	**69.2%**	**50.1%**	**18.5%**	**25.0%**	**2.0%**	**4.4%**
University of California Davis Med Ctr	458	136,623	81.7%	24.0%	28.2%	39.2%	7.6%	1.0%
Fremont Hospital - Yuba City	192	30,363	43.3%	50.1%	18.5%	25.0%	2.0%	4.4%
Rideout Memorial Hospital	164	32,267	53.9%	62.0%	14.9%	16.1%	6.3%	0.7%
Marshall Hospital	103	21,746	57.8%	51.1%	6.9%	38.7%	2.2%	1.1%
Barton Memorial Hospital	83	25,428	83.9%	36.3%	37.7%	19.6%	2.5%	3.8%
Tahoe Forest Hospital	62	20,030	88.5%	18.3%	64.6%	12.9%	0.3%	3.8%
Shriners Hospital - Northern Calif.	50	12,656	69.3%	0.0%	0.0%	0.0%	0.0%	100.0%
Sierra Valley District Hospital	40	11,475	78.6%	2.8%	94.0%	0.2%	0.0%	3.0%
Total	**3,526**	**865,811**	**66.2%**	**32.3%**	**20.9%**	**41.4%**	**2.3%**	**3.1%**

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)

Exhibit 32

Sacramento Area Physicians Organizations

Name of Physician Organization	Estimated Enrollment	# of Primary Care Physicians	# of Specialists	Management Service Organization	Notes
Medical Groups					
University of California - Davis Medical Group	47,500	70	254	UC Davis Medical Center	State Faculty Group
Medclinic of Sacramento	84,600	80	75	CHW Medical Foundation	Foundation
Sutter Medical Group	64,400	62	213	Sutter Medical Foundation	Foundation
The Permanente Medical Group	429,900	126	383	The Permanente Medical Group, Inc.	
IPAs					
Golden State Physicians Medical Group, Inc.	11,000	159	462	River City Medical Group, Inc.	
Hill Physicians	114,920	132	354	PriMed	
Sutter Independent Physicians	41,500	88	332	Sutter Connect	
River City Medical Group, Inc.	33,000	60	205	River City Medical Group, Inc	

Source: Author's analysis of Cattaneo & Stroud, Inc., "Medical Group Units Sorted Alphabetically by County," April 2000. Accessed through password-protected area of website, www.cattaneostroud.com

interests, financial or other, of the physicians and the hospitals are in conflict. As some hospitals move to exit their capitation arrangements, some physician groups are asking if they should take a different approach to contracting, one that focuses on their specific interests.

Central Valley

Hospitals in six counties in California's Central Valley were examined, including cities like Bakersfield, Tulare, and Fresno. It is estimated that 620,000 people in the area were enrolled in an HMO in 1999, or about 53% of the population. Blue Cross is the largest HMO in the area with about a half million enrollees. Some 160,000 of Blue Cross's enrollees are in Medi-Cal managed care plans. It is one of the two health plans offered in Fresno, Kern, and Tulare counties. Tulare is the most recent county to implement Medi-Cal managed care.

Medicare HMO penetration and the AAPCC are both relatively low in Fresno County. About one-fourth of Fresno seniors are in an HMO. While some HMOs have announced their intent to drop their Medicare plans in the Central Valley, seniors in Fresno will still have four choices in 2001.

Kaiser is the second-largest HMO in the region, and it operates a hospital in Fresno. As shown in *Exhibit 33,* hospitals in the area had average profits of 5.7% of their revenues in 1998-99. The Kern Medical Center reported $51.2 million in net income, about half from operations and the rest from other revenue sources, including county support. However, 10 of the hospitals in the table

Exhibit 33

Revenues and Profitability for Central Valley Hospitals

System/Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operations	Total Margin	% of Total Revenue
Adventist		**140,124,715**	**155,140,890**	**(13,329,013)**	**(12,078,959)**	**-8.4%**
San Joaquin Community Hospital	Bakersfield	71,553,788	77,493,588	(5,010,867)	(4,232,741)	-5.8%
Selma District Hospital	Selma	12,225,552	14,998,619	(2,597,966)	(2,478,445)	-19.8%
Hanford Community Hospital	Hanford	45,774,881	51,846,932	(5,599,200)	(5,305,380)	-11.3%
Central Valley General Hospital	Hanford	10,570,494	10,801,751	(120,980)	(62,393)	-0.6%
Brim		**11,366,262**	**12,001,316**	**(522,804)**	**754,752**	**5.9%**
Tehachapi Hospital	Tehachapi	5,870,172	6,637,530	(758,509)	150,093	2.2%
Corcoran District Hospital	Corcoran	5,496,090	5,363,786	235,705	604,659	10.1%
Catholic Healthcare West		**183,997,611**	**194,141,677**	**(7,377,490)**	**6,079,944**	**3.0%**
Bakersfield Memorial Hospital	Bakersfield	83,586,200	89,319,642	(4,590,105)	5,497,742	5.8%
Mercy Hospital - Bakersfield	Bakersfield	100,411,411	104,822,035	(2,787,385)	582,202	0.6%
Mercy Westside Hospital	Taft	6,658,638	6,997,195	(327,837)	(91,882)	-1.3%
Community Health System		**335,333,724**	**302,148,507**	**42,736,407**	**47,343,053**	**13.5%**
Clovis Community Hospital	Clovis	37,240,692	37,233,481	290,571	880,503	2.3%
Fresno Community Hospital and	Fresno	155,291,686	154,349,759	4,736,913	9,893,224	6.0%
Medical CenterUniversity Medical Center	Fresno	142,801,346	110,565,267	37,708,923	36,569,326	24.7%
Other Hospitals		**826,522,157**	**832,400,639**	**10,830,946**	**50,736,855**	**5.5%**
St. Agnes Medical Center	Fresno	190,546,280	217,961,218	(24,099,360)	(766,557)	-0.4%
Kaiser Foundation - Fresno	Fresno	-	-	-	-	
Good Samaritan Hospital-Bakersfield	Bakersfield	7,548,724	10,208,162	(2,632,574)	(1,460,614)	-16.7%
Kaweah Delta District Hospital	Visalia	141,097,257	143,521,232	3,707,829	7,981,504	5.3%
Valley Children's Hosp & Guidance Clinic	Fresno	132,203,140	130,480,010	4,946,411	(7,299,895)	-5.1%
Kern Medical Center	Bakersfield	140,740,385	116,154,411	26,076,252	51,152,539	30.3%
Kern Valley Healthcare District	Lake Isabella	18,459,254	18,956,931	(326,313)	4,293	0.0%
Madera Community Hospital	Madera	36,528,441	34,666,229	2,096,012	3,046,032	8.1%
Sierra View District Hospital	Porterville	45,027,100	45,616,333	(215,688)	609,787	1.3%
Tulare District Hospital	Tulare	32,455,109	33,835,338	(1,010,705)	338,205	1.0%
Delano Regional Medical Center	Delano	29,858,125	28,575,457	1,612,151	(2,845,355)	-9.1%
Ridgecrest Community Hospital	Ridgecrest	21,812,159	23,293,047	(1,267,155)	(721,205)	-3.2%
Fresno Surgery Center	Fresno	19,637,932	18,522,555	1,867,627	659,736	3.2%
Memorial Hospital at Exeter	Exeter	10,608,251	10,609,716	76,459	38,385	0.4%
Total		1,497,344,469	1,495,833,029	32,338,046	92,835,645	5.7%

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)

reported losing money that year. Community Health System is the largest hospital group in the region. Its three hospitals in Fresno and Clovis had net patient revenues of $335.3 million and profits at $47.3 million.

Hospitals in the Central Valley had average inpatient occupancy rate of 64.2%, although the Community Health System hospitals and the two small Brim hospitals both had less than half their beds filled each day, on average. *Exhibit 34* shows occupancy rates and payer mix for these hospitals. Third-party insurers paid for about one-third of the inpatient days.

The analysis of physician organizations goes into those six Central Valley counties plus three others closer to Nevada. After the Permanente Medical Group, the largest medical group in the area appears to be the Sutter Gould Medical Foundation. *Exhibit 35* provides an overview of the major physician organizations in the region. The Matrix IPA in Fresno is affiliated with Priority Health Services, which has a limited Knox Keene license with 100,000 lives. Matrix lost its PacifiCare contract in 2001 and then sought bankruptcy protection.

Exhibit 34

Occupancy and Payer Mix for Central Valley Hospitals

Hospitals	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% Other 3d Parties	% County Indigent	% Other Payers
Adventist	**311**	**78,623**	**72.5%**	**42.3%**	**14.1%**	**39.1%**	**0.6%**	**3.9%**
San Joaquin Community Hospital	178	49,594	76.3%	41.5%	11.3%	46.1%	0.0%	1.2%
Selma District Hospital	57	7,216	34.7%	49.3%	15.9%	22.2%	0.0%	12.6%
Hanford Community Hospital	48	16,875	96.3%	41.7%	15.9%	32.3%	2.2%	8.0%
Central Valley General Hospital	28	4,938	95.8%	42.7%	33.9%	16.6%	2.2%	4.6%
Brim	**71**	**10,079**	**38.9%**	**21.6%**	**68.7%**	**3.9%**	**1.3%**	**4.6%**
Tehachapi Hospital	39	6,263	44.0%	3.4%	92.3%	2.2%	0.0%	2.1%
Corcoran District Hospital	32	3,816	32.7%	51.4%	30.0%	6.8%	3.3%	8.6%
Catholic Healthcare West	**530**	**121,657**	**62.9%**	**41.7%**	**3.6%**	**53.3%**	**0.6%**	**0.7%**
Bakersfield Memorial Hospital	269	60,859	62.0%	42.0%	3.2%	53.8%	0.3%	0.7%
Mercy Hospital - Bakersfield	261	60,798	63.8%	41.5%	4.0%	52.8%	1.0%	0.7%
Mercy Westside Hospital	84	21,198	69.1%	16.5%	74.1%	2.4%	0.0%	7.0%
Community Health System of Northern California	**847**	**150,976**	**48.8%**	**28.6%**	**32.3%**	**30.2%**	**5.7%**	**3.2%**
Clovis Community Hospital	102	13,482	36.2%	30.7%	9.9%	57.3%	0.0%	2.2%
Fresno Community Hosp	411	87,780	58.5%	35.9%	29.3%	32.4%	1.0%	1.4%
University Medical Center	334	49,714	40.8%	15.2%	43.5%	18.9%	15.7%	6.8%
Other Hospitals	**1,723**	**452,113**	**71.8%**	**32.9%**	**32.0%**	**29.5%**	**2.9%**	**2.7%**
St. Agnes Medical Center	326	83,668	70.3%	51.0%	7.0%	41.2%	0.0%	0.8%
Kaiser Foundation - Fresno	95	21,960	63.3%	9.0%	0.1%	90.6%	0.0%	0.4%
Good Samaritan Hospital-Bakersfield	22	8,338	103.8%	45.7%	44.6%	5.0%	3.0%	1.8%
Kaweah Delta District Hospital	258	86,951	92.3%	56.6%	16.1%	23.7%	1.9%	1.6%
Valley Children's Hosp & Guidance Clinic	203	53,254	71.9%	0.5%	61.0%	38.0%	0.1%	0.4%
Kern Medical Center	174	45,632	71.9%	12.5%	39.1%	27.1%	21.3%	0.0%
Kern Valley Healthcare District	101	32,817	89.0%	11.6%	72.3%	10.6%	0.3%	5.1%
Madera Community Hospital	100	19,910	54.5%	43.8%	18.9%	15.1%	4.7%	17.5%
Sierra View District Hospital	94	22,517	65.6%	54.7%	20.8%	17.8%	0.7%	6.0%
Tulare District Hospital	88	16,544	51.5%	48.7%	23.2%	18.2%	2.1%	7.8%
Delano Regional Medical Center	82	25,727	86.0%	19.7%	56.1%	21.3%	0.3%	2.6%
Ridgecrest Community Hospital	80	8,412	28.8%	47.0%	13.4%	36.0%	0.0%	3.6%
Fresno Surgery Center	20	3,968	54.4%	25.8%	0.0%	72.8%	0.0%	1.4%
Memorial Hospital at Exeter	80	22,415	75.3%	8.8%	85.4%	2.9%	0.0%	2.9%
Total	3,482	813,448	64.2%	34.2%	26.5%	33.8%	2.9%	2.6%

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)

Exhibit 35

Central Valley Physician Organizations

Name of Physician Organization	Estimated Enrollment	# of Primary Care Physicians	# of Specialists	Management Service Organization	Notes
Medical Groups					
Bakersfield (Kern) Family Medical Center	63,200	97	47	Heritage Medical Systems	Foundation model with IPA
St. Joseph's Provider Network/ CHW Medical Foundation	20,000	71	150	St. Joseph's Medical Resources	Foundation model with IPA
Southern California Permanente Group*	290,907 (estimated)	N/A	N/A	The Permanente Medical Group, Inc	
Sutter Gould Medical Foundation*	85,000	76	62	Sutter Gould Medical Foundation	
IPAs					
Central Valley Medical Group, Inc	12,100	104	99	North American Medical Management, Inc	
Delta IPA	60,000	125	138	Delta IPA	
Humboldt-Del Norte IPA	1,680	101	98	Humboldt-Del Norte Foundation for Medical Care	
Inova Medical Associates, A Medical Group	100	70	200	Pacific Health Alliance	
Key Medical Group, Inc	12,000	147	167	Foundation for Medical Care of Tulare and Kings Counties, Inc.	
Matrix IPA Inc., A Medical Group	65,300	170	400	Priority Health Services	
Sante Community Physicians	74,900	143	240	Sante Health System, Inc.	Medical Group, Inc.
Merced-Mariposa IPA Medical Group	5,300	106	94	Foundation for Medical Care for Merced County	
Medcore Medical Group	28,900	174	330	Medcore Management, Inc.	
Regency IPA Medica Group, Inc.	3,000	75	97	North American Medical Management, Inc.	
Valley IPA Medical Group	31,300	108	295	Brown and Toland Physician Services Organization	

Includes Fresno, Kern, Kings, Madera, Merced, Stanislaus, and San Joaquin, Tulare, Tuolumne
Source: Author's analysis of Cattaneo & Stroud, Inc., "Medical Group Units Sorted Alphabetically by County," April 2000. Accessed through password-protected area of website, www.cattaneostroud.com
For asterisked groups, the source is our own contacts in April, May and June of 2000

Los Angeles-Orange County

The Los Angeles metropolitan area covers a large area with its own diversity of landscape, people, and health care organizations. Los Angeles and Orange counties are grouped together for this analysis; San Bernardino and Riverside counties are looked at separately. The analysis shows that health care in the Los Angeles area is different from Northern California in several key ways.

Exhibit 36

Los Angeles Hospital Map Legend

System/Hospitals	City
★ **Adventist**	
1 Glendale Adventist	Glendale
2 White Memorial Medical Center	Los Angeles
☆ **Carondolet**	
3 Daniel Freeman Memorial	Inglewood
★ **Catholic Healthcare West**	
4 California Hospital	Los Angeles
5 Glendale Memorial	Glendale
6 Northridge Hospital	Northridge
7 San Gabriel Valley	San Gabriel
8 St. Francis Medical Center	Lynwood
9 St. Mary Medical Center	Long Beach
10 St. Vincent Medical Center	Los Angeles
▼ **Citrus Valley Medical Center**	
11 Citrus Valley Medical Center-Qv Campus	West Covina
▽ **Columbia-HCA**	
12 Columbia West Hills	West Hills
▼ **County of Los Angeles**	
13 LA County/Harbor-UCLA	Torrance
14 LA County/Martin Luther King Jr./Drew Med Ctr	Los Angeles
15 LA County/Olive View	Sylmar
16 LA County/USC Medical Center	Los Angeles
● **Kaiser Foundation Southern Region**	
17 Kaiser Foundation - Anaheim	
18 Kaiser Foundation - Bellflower	
19 Kaiser Foundation - Harbor City	
20 Kaiser Foundation - Panorama City	
21 Kaiser Foundation - Sunset	
22 Kaiser Foundation - West LA	
23 Kaiser Foundation - Woodland Hills	
24 Kaiser Foundation - Baldwin Park	
◆ **Little Company of Mary**	
26 Little Company of Mary	Torrance
27 San Pedro Peninsula Hospital	San Pedro
◇ **Memorial Health Services**	
28 Anaheim Memorial	Anaheim
29 Long Beach Memorial	Long Beach
29A Saddleback Memorial	Laguna Hills
◆ **Sisters of Providence**	
30 Providence Saint Joseph	Burbank
31 Providence Holy Cross	Mission Hills

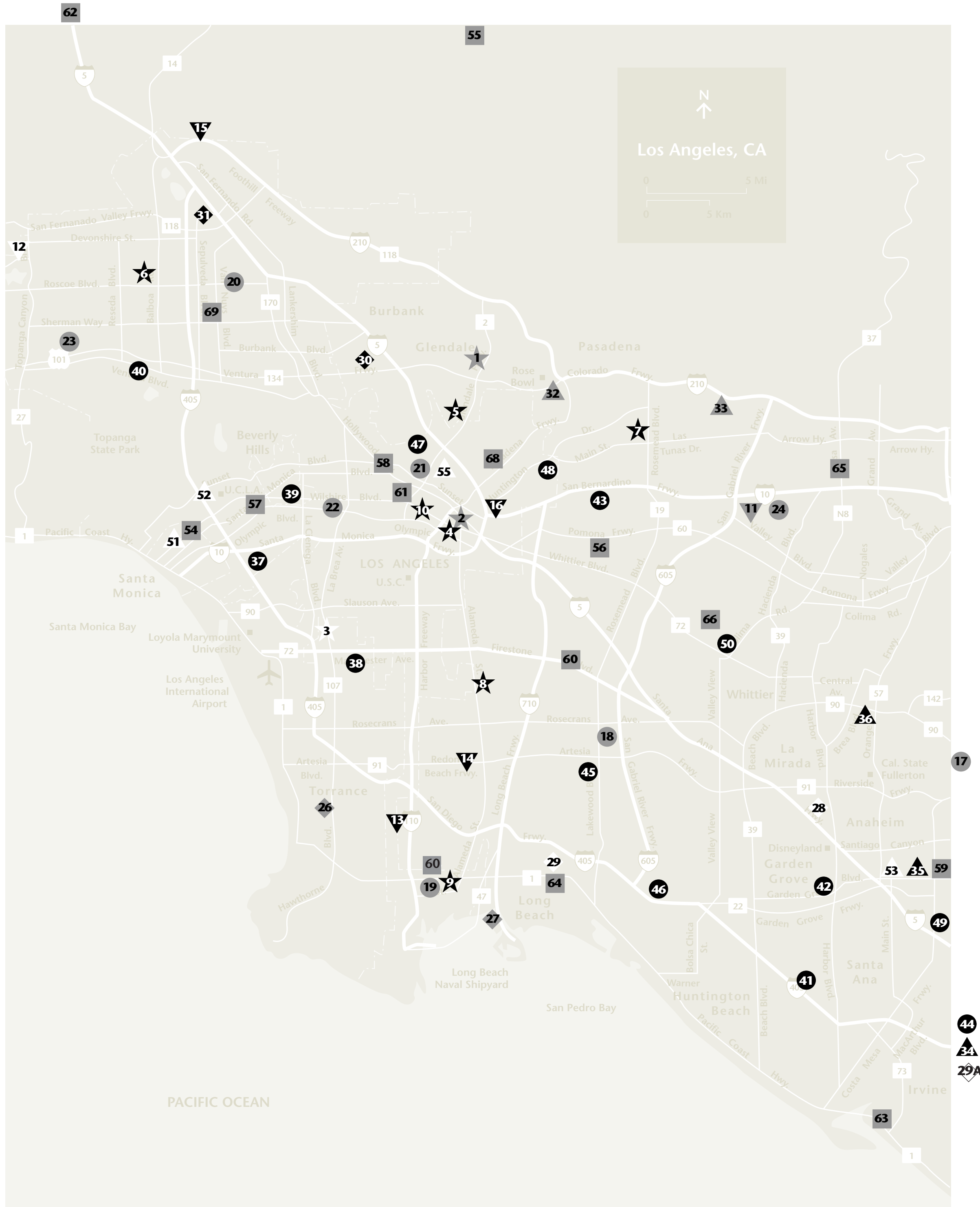
System/Hospitals	City
▲ **Southern California Healthcare Systems**	
32 Huntington Memorial Hospital	Pasadena
33 Methodist Hospital Southern Cal	Arcadia
▲ **St. Joseph**	
34 Mission Hospital Regional	Mission Viejo
35 St. Joseph Hospital - Orange	Orange
36 St. Jude Medical Center	Fullerton
● **Tenet Health**	
37 Brotman Medical Center	Culver City
38 Centinela Hospital	Inglewood
39 Century City Hospital	Los Angeles
40 Encino Tarzana Regional	Tarzana
41 Fountain Valley - Euclid	Fountain Valley
42 Garden Grove Hospital	Garden Grove
43 Garfield Medical Center	Monterey Park
44 Irvine Medical Center	Irvine
45 Lakewood Regional - South	Lakewood
46 Los Alamitos Medical Center	Los Alamitos
47 Queen of Angels-Hollywood Presbyterian Med Ctr	Los Angeles
48 USC University Hospital	Los Angeles
49 Western - Santa Ana	Santa Ana
50 Whittier Hospital Medical Center	Whittier
△ **University of California**	
51 Santa Monica - UCLA	Santa Monica
52 UCLA Medical Center	Los Angeles
53 University of California Irvine	Orange
■ **Other Hospitals**	
54 St. John's	Santa Monica
55 Antelope Valley	Lancaster
56 Beverly Hospital	Montebello
57 Cedars-Sinai Medical Center	Los Angeles
58 Children's Hospital of Los Angeles	Los Angeles
59 Children's Hospital of Orange County	Orange
60 Downey Community Hospital	Downey
61 Good Samaritan Hospital	Los Angeles
62 Henry Mayo Newhall Memorial	Valencia
63 Hoag Memorial Presbyterian	Newport Beach
64 Long Beach Community	Long Beach
65 Pomona Valley Hospital	Pomona
66 Presbyterian Intercommunity	Whittier
67 Torrance Memorial	Torrance
68 USC Norris Cancer Hospital	Los Angeles
69 Valley Presbyterian Hospital	Van Nuys

There are more than 140 acute care hospitals in Los Angeles and Orange counties, plus a few dozen other specialty hospitals. The map in *Exhibit 36* shows the location of many of the acute care hospitals in the Los Angeles area and their system affiliations. Most of the systems are geographically focused, although a few of the largest ones have established a presence across the area.

The hospital systems in the area cover a broad range in size, ownership, and geography. The largest hospitals and systems in the LA area include a public system (Los Angeles County), an academic

Exhibit 36

Los Angeles Area Hospitals and Systems



health center (UCLA), an investor-owned chain (Tenet Health), a religiously sponsored network (Catholic Healthcare West), and an independent hospital (Cedars-Sinai Medical Center). As in the Bay Area, the Los Angeles hospital systems have grown through a series of recent acquisitions or new affiliations. For example, Catholic Healthcare

Exhibit 37

Revenues and Profitability for Los Angeles Area Hospitals

System/Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operatrions	Total Margin	% of Total Revenue
Adventist		**310,438,378**	**294,967,574**	**24,036,710**	**44,696,097**	**13.1%**
Glendale Adventist	Glendale	123,372,183	129,767,778	(2,683,652)	179,729	0.1%
White Memorial Medical Center	Los Angeles	145,907,735	122,246,157	28,204,679	45,863,014	27.2%
Carondolet		**188,745,364**	**209,343,922**	**(14,822,842)**	**(15,375,395)**	**-7.8%**
Daniel Freeman Memorial	Inglewood	129,873,579	137,638,216	(3,732,021)	(4,209,606)	-3.1%
Catholic Healthcare West		854,403,793	876,292,010	(8,234,363)	23,413,204	2.6%
California Hospital	Los Angeles	64,869,838	66,824,894	726,323	712,325	1.0%
Glendale Memorial	Glendale	72,992,438	70,999,865	3,182,752	4,219,432	5.6%
Northridge Hospital	Northridge	94,372,266	103,041,746	(6,927,000)	(6,166,000)	-6.4%
San Gabriel Valley**	San Gabriel	46,957,232	49,403,713	(1,587,206)	(754,000)	-1.5%
St. Francis Medical Center	Lynwood	148,282,679	134,497,005	14,742,561	23,150,154	14.4%
St. Mary Medical Center	Long Beach	116,629,691	112,816,780	6,282,988	11,704,723	9.4%
St. Vincent Medical Center	Los Angeles	105,512,739	111,690,625	(4,722,601)	9,681,386	8.0%
Citrus Valley Medical Center		**189,708,283**	**210,147,536**	**-16,434,762**	**-15,657,202**	**-7.8%**
Citrus Valley Medical Center-Qv Campus	West Covina	156,209,454	175,647,553	(16,569,700)	(15,531,459)	-9.3%
HCA-The Healthcare Company (Columbia)		**161,698,870**	**183,933,993**	**(19,262,843)**	**(15,847,709)**	**-9.4%**
Columbia West Hills	West Hills	72,205,681	79,069,563	(4,883,465)	(2,350,736)	-3.1%
County of Los Angeles		**1,906,479,158**	**1,473,152,906**	**472,682,808**	**854,512,288**	**36.6%**
LA County/Harbor-UCLA	Torrance	398,999,471	286,607,154	128,446,773	166,698,208	36.6%
LA County/Martin Luther King Jr./ Drew Med Ctr	Los Angeles	356,645,078	300,062,230	61,472,912	165,316,188	35.5%
LA County/Olive View	Sylmar	239,036,090	179,638,660	63,899,145	113,084,455	38.5%
LA County/USC Medical Center	Los Angeles	874,053,293	655,203,960	232,417,723	398,738,232	37.7%
Kaiser Foundation Southern Region*		**1,524,298,114**	**1,631,010,216**	**(104,846,523)**	**(104,846,523)**	**-6.9%**
Little Company of Mary		**238,525,678**	**238,120,797**	**3,352,419**	**10,484,659**	**4.2%**
Little Company of Mary	Torrance	133,858,680	129,673,845	5,609,610	10,577,050	7.4%
San Pedro Peninsula Hospital	San Pedro	57,563,057	58,076,997	143,864	1,655,029	2.8%
Memorial Health Services		**526,242,679**	**584,566,803**	**(5,630,877)**	**8,510,314**	**1.4%**
Anaheim Memorial	Anaheim	71,521,330	75,872,373	(3,270,441)	1,044,521	1.3%
Long Beach Memorial	Long Beach	294,009,481	326,486,694	8,594,961	15,107,174	4.4%
Saddleback Memorial	Laguna Hills	117,129,412	123,458,453	3,886,927	5,990,131	4.6%
Pacific Health Corp		**74,108,915**	**66,314,504**	**8,812,841**	**5,125,998**	**6.8%**
Paracelsus Health Care Corporation		**96,119,161**	**98,520,350**	**(852,055)**	**160,369**	**0.2%**
Sisters of Providence		**259,803,453**	**263,012,988**	**2,440,147**	**4,986,218**	**1.9%**
Providence Saint Joseph	Burbank	175,251,097	175,913,714	2,711,034	4,884,638	2.7%
Providence Holy Cross	Mission Hills	84,552,356	87,099,274	(270,887)	101,580	0.1%
Southern California Healthcare Systems		**316,559,123**	**345,895,313**	**(20,405,670)**	**(2,739,083)**	**-0.8%**
Huntington Memorial Hospital	Pasadena	201,002,639	217,201,456	(12,249,014)	720,515	0.3%
Methodist Hospital Southern Cal	Arcadia	94,744,381	104,680,681	(8,573,347)	(3,916,856)	-3.9%
St. Joseph		**569,100,759**	**567,595,075**	**32,682,710**	**53,814,641**	**8.3%**
Mission Hospital Regional	Mission Viejo	133,557,005	132,582,714	7,752,535	10,404,596	6.8%
St. Joseph Hospital - Orange	Orange	253,235,193	269,586,578	3,605,038	13,720,514	4.6%
St. Jude Medical Center	Fullerton	182,308,561	165,425,783	21,325,137	29,689,531	15.2%

West acquired the UniHealth hospitals in a deal that was closed in 1999.

Exhibit 37 shows revenues, expenses, and profitability for hospitals in this region. On average, the hospitals had profits of 8.8%, or $1.3 billion on revenues of $13.2 billion. However, that is a little

Exhibit 37, continued

Revenues and Profitability for Los Angeles Area Hospitals, continued

System/Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operatrions	Total Margin	% of Total Revenue
Tenet Health		**1,785,523,439**	**1,594,956,260**	**210,803,803**	**203,184,550**	**11.1%**
Brotman Medical Center	Culver City	70,508,671	71,940,864	(1,001,641)	(719,710)	-1.0%
Centinela Hospital	Inglewood	123,470,496	113,147,357	11,351,655	11,698,269	9.4%
Century City Hospital	Los Angeles	56,325,393	56,857,016	(290,835)	(297,378)	-0.5%
Encino Tarzana Regional	Tarzana	117,016,578	98,734,166	19,055,945	9,783,804	8.0%
Fountain Valley - Euclid	Fountain Valley	122,353,782	105,345,760	19,085,524	15,843,479	12.7%
Garden Grove Hospital	Garden Grove	60,601,927	46,037,253	14,857,305	15,355,477	24.8%
Garfield Medical Center	Monterey Park	105,401,291	75,408,758	30,619,010	30,061,781	27.9%
Irvine Medical Center	Irvine	55,426,872	58,181,178	(2,310,309)	(2,325,656)	-4.1%
Lakewood Regional - South	Lakewood	60,319,802	61,146,054	(320,559)	(306,514)	-0.5%
Los Alamitos Medical Center	Los Alamitos	62,322,016	56,989,495	5,704,136	5,910,790	9.1%
Queen of Angels-Hollywood Presbyterian Med Ctr	Los Angeles	142,716,399	100,776,391	42,798,765	43,071,598	29.9%
USC University Hospital	Los Angeles	165,843,194	145,566,316	21,824,568	26,690,854	15.4%
Western - Santa Ana	Santa Ana	112,813,828	105,816,611	9,683,509	9,847,449	8.5%
Whittier Hospital Medical Center	Whittier	65,253,854	58,940,327	7,112,075	7,025,958	10.6%
University of California		**875,026,070**	**889,776,707**	**38,428,133**	**47,976,328**	**5.1%**
Santa Monica - UCLA	Santa Monica	87,171,418	97,546,993	(3,349,195)	(1,915,189)	-2.0%
UCLA Medical Center	Los Angeles	569,795,965	585,040,280	24,909,464	34,746,145	5.6%
University of California Irvine	Orange	218,058,687	207,189,434	16,867,864	15,145,372	6.7%
Other Hospitals		**3,288,911,953**	**3,512,667,526**	**(42,179,407)**	**164,427,769**	**4.4%**
St. John's	Santa Monica	162,501,242	152,052,504	11,880,631	9,801,863	6.0%
Antelope Valley	Lancaster	141,095,467	142,216,325	2,364,080	6,623,027	4.4%
Beverly Hospital	Montebello	62,868,059	71,159,923	(7,643,107)	(5,712,384)	-8.7%
Cedars-Sinai Medical Center	Los Angeles	675,765,898	730,436,278	(77,674)	43,522,471	5.6%
Children's Hospital of Los Angeles	Los Angeles	184,946,403	256,304,906	(7,507,024)	17,043,044	6.2%
Children's Hospital of Orange County	Orange	99,642,435	115,984,412	(1,225,108)	643,004	0.6%
Downey Community Hospital	Downey	75,265,902	86,496,315	(10,322,328)	747,913	0.8%
Good Samaritan Hospital	Los Angeles	150,226,496	169,571,110	(15,378,492)	(266,378)	-0.2%
Henry Mayo Newhall Memorial	Valencia	72,481,398	77,804,755	(2,792,005)	(3,391,302)	-4.5%
Hoag Memorial Presbyterian	Newport Beach	268,090,917	257,008,648	21,792,606	67,750,467	20.8%
Long Beach Community	Long Beach	83,387,371	99,423,350	(15,110,346)	(12,846,830)	-14.8%
Pomona Valley Hospital	Pomona	189,897,034	191,163,705	5,203,180	9,083,706	4.5%
Presbyterian Intercommunity	Whittier	127,926,410	128,808,428	1,004,768	(755,351)	-0.6%
Torrance Memorial	Torrance	161,454,806	152,032,859	9,421,947	20,867,738	12.1%
USC Norris Cancer Hospital	Los Angeles	50,981,712	52,877,761	(1,757,537)	(1,109,315)	-2.1%
Valley Presbyterian Hospital	Van Nuys	82,867,360	81,652,620	2,412,461	4,030,034	4.5%
Total		13,165,693,190	13,040,274,480	560,570,229	1,266,826,523	8.8%

*Kaiser Foundation data for all hospitals in its southern region, including San Diego.
**Data based on less than 12 months of operations
Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699) Hospitals with less than $50 million in net patient revenues included in system totals but not listed in table.

Exhibit 38

Occupancy and Payer Mix for Los Angeles Area Hospitals

Hospital	Staffed Beds	Inpatient Days	Occupancy	%Medicare Days	% Medi-Cal Days	%Other 3d Parties	%County Indigent	%Other Payers
Adventist	**809**	**189,480**	**64.2%**	**40.7%**	**25.8%**	**29.2%**	**0.0%**	**4.3%**
Glendale Adventist Medical Center	396	85,595	59.2%	51.1%	21.1%	23.0%	0.0%	4.8%
White Memorial Medical Center	218	79,565	100.0%	32.3%	38.0%	26.4%	0.0%	3.4%
Carondolet	**592**	**126,443**	**58.5%**	**45.6%**	**22.6%**	**27.1%**	**0.0%**	**4.7%**
Daniel Freeman Memorial Hospital	360	77,775	59.2%	45.1%	24.1%	28.1%	0.0%	2.7%
Catholic Healthcare West	**3,666**	**597,185**	**59.1%**	**46.3%**	**22.3%**	**27.7%**	**0.2%**	**3.5%**
California Hospital Medical Center	249	34,410	65.2%	28.4%	41.3%	24.8%	0.2%	5.3%
Glendale Memorial	345	49,531	67.7%	54.1%	23.4%	19.8%	0.0%	2.7%
Northridge Hospital Medical Center	414	49,232	56.1%	43.4%	9.3%	45.6%	0.0%	1.6%
Robert F. Kennedy Medical Center	195	36,152	50.8%	45.1%	32.6%	19.3%	0.0%	3.0%
San Gabriel Valley Medical Center*	274	37,869	65.2%	59.8%	11.2%	26.7%	0.1%	2.2%
St. Francis Medical Center	321	91,099	77.8%	34.0%	42.7%	17.2%	0.0%	6.1%
St. Mary Medical Center	425	73,769	47.6%	60.3%	23.1%	13.2%	0.0%	3.4%
St. Vincent Medical Center	181	55,420	83.9%	54.5%	12.0%	28.8%	0.0%	4.7%
Citrus Valley Medical Center	**614**	**151422**	**67.6%**	**31.4%**	**22.8%**	**41.8%**	**0.0%**	**3.9%**
Citrus Valley -Qv Campus	508	132,849	71.6%	31.7%	24.8%	39.5%	0.0%	4.0%
Columbia-HCA	**566**	**115,878**	**56.1%**	**47.6%**	**4.9%**	**39.0%**	**1.5%**	**7.0%**
Columbia West Hills	212	39,886	51.5%	50.9%	0.6%	45.0%	0.0%	3.5%
County of Los Angeles	**1,672**	**582,268**	**95.4%**	**5.8%**	**50.0%**	**8.8%**	**34.0%**	**1.4%**
LA County/Harbor-UCLA	328	119,086	99.5%	8.3%	43.3%	9.4%	38.1%	0.9%
LA County /Martin Luther King Jr./ Drew Med Ctr	257	88,568	94.4%	8.1%	53.9%	14.9%	23.0%	0.1%
LA County /Olive View	211	68,066	88.4%	5.4%	54.2%	2.2%	37.6%	0.6%
LA County /USC Medical Center	756	275,990	100.0%	4.6%	47.7%	8.9%	37.8%	1.1%
Kaiser Foundation	**1,962**	**381,304**	**53.2%**	**4.8%**	**0.3%**	**94.9%**	**0.0%**	**0.0%**
Kaiser Foundation - Anaheim	165	40,901	67.9%	3.6%	0.0%	96.4%	0.0%	0.0%
Kaiser Foundation - Bellflower	272	71,278	71.8%	3.6%	0.3%	96.1%	0.0%	0.0%
Kaiser Foundation - Harbor City	207	32,926	43.6%	5.6%	0.2%	94.2%	0.0%	0.0%
Kaiser Foundation - Panorama City	215	38,120	48.6%	5.8%	0.2%	93.9%	0.0%	0.0%
Kaiser Foundation - Sunset	557	111,859	55.0%	4.1%	0.3%	95.6%	0.0%	0.0%
Kaiser Foundation - West LA	224	41,147	50.3%	8.3%	0.8%	90.9%	0.0%	0.0%
Kaiser Foundation - Woodland Hills	159	40,330	69.5%	5.8%	0.0%	94.2%	0.0%	0.0%
Kaiser Foundation - Baldwin Park	163	4,743	8.0%	0.0%	0.0%	100.0%	0.0%	0.0%
Little Company of Mary	**997**	**246,052**	**67.6%**	**25.3%**	**25.2%**	**40.1%**	**0.0%**	**9.5%**
Little Company of Mary Hospital	368	107,315	79.9%	29.2%	9.4%	50.7%	0.0%	10.7%
San Pedro Peninsula Hospital	309	70,001	62.1%	31.7%	18.2%	35.2%	0.0%	14.9%
Memorial Health Services	**1,385**	**291,978**	**57.8%**	**30.3%**	**11.7%**	**55.7%**	**0.3%**	**1.9%**
Anaheim Memorial Medical Center	192	40,694	58.1%	37.1%	5.2%	52.5%	0.9%	4.4%
Long Beach Memorial	743	174,772	64.4%	29.8%	18.1%	50.5%	0.1%	1.4%
Saddleback Memorial Medical Center	220	52,593	65.5%	38.5%	0.8%	58.3%	0.6%	1.8%
Pacific Health Corp	**363**	**56,866**	**42.9%**	**34.9%**	**53.2%**	**11.6%**	**0.0%**	**0.2%**
Paracelsus Health Care Corporation	**549**	**63,269**	**39.4%**	**50.7%**	**21.2%**	**26.4%**	**0.0%**	**1.7%**
Sisters of Providence	**617**	**181,366**	**80.5%**	**51.2%**	**15.3%**	**31.7%**	**0.2%**	**1.6%**
Providence Saint Joseph	362	119,940	90.8%	59.4%	13.2%	25.7%	0.0%	1.7%
Providence Holy Cross	255	61,426	66.0%	35.3%	19.4%	43.5%	0.5%	1.3%
Southern California Healthcare Systems	**787**	**208,912**	**72.7%**	**45.4%**	**13.1%**	**38.9%**	**0.1%**	**2.6%**
Huntington Memorial Hospital	337	122,997	100.0%	41.0%	15.5%	40.6%	0.1%	2.8%
Methodist Hospital of Southern Cal	332	69,832	57.6%	52.1%	6.3%	39.5%	0.0%	2.1%

Exhibit 38, continued

Occupancy and Payer Mix for Los Angeles Area Hospitals, continued

Hospital	Staffed Beds	Inpatient Days	Occupancy	%Medicare Days	% Medi-Cal Days	%Other 3d Parties	%County Indigent	%Other Payers
St. Joseph	**969**	**248,066**	**70.1%**	**31.5%**	**3.9%**	**60.8%**	**1.6%**	**2.1%**
Mission Hospital Regional	271	66,882	67.6%	31.7%	2.0%	61.6%	2.3%	2.4%
St. Joseph Hospital - Orange	367	95,050	71.0%	26.9%	5.2%	65.2%	1.0%	1.8%
St. Jude Medical Center	331	86,134	71.3%	36.6%	4.0%	55.5%	1.8%	2.2%
Tenet Health	**5,729**	**1,039,439**	**50.3%**	**40.3%**	**24.3%**	**31.7%**	**0.5%**	**3.3%**
Brotman Medical Center	432	54,624	34.6%	65.7%	19.1%	10.6%	0.0%	4.5%
Centinela Hospital Medical Center	380	68,907	49.7%	47.8%	19.0%	29.7%	0.0%	3.5%
Century City Hospital	110	28,564	71.1%	66.3%	10.1%	20.6%	0.0%	3.0%
Encino Tarzana Regional - Tarzana	236	53,949	62.6%	33.9%	14.3%	50.5%	0.0%	1.3%
Fountain Valley Regional - Euclid	396	75,571	52.3%	43.4%	8.7%	42.6%	1.9%	3.4%
Garden Grove Hospital	167	30,579	50.2%	31.4%	18.1%	44.2%	2.6%	3.7%
Garfield Medical Center	214	64,363	82.4%	41.8%	30.4%	26.2%	0.0%	1.6%
Greater El Monte Community	115	17,818	42.4%	41.0%	35.9%	15.8%	0.0%	7.2%
Irvine Medical Center	176	24,717	38.5%	44.4%	1.0%	51.9%	0.6%	2.0%
Lakewood Regional - South	161	40,525	69.0%	37.9%	8.0%	51.5%	0.0%	2.6%
Los Alamitos Medical Center	179	45,330	69.4%	43.2%	3.8%	51.0%	1.0%	1.1%
Queen of Angels-Hollywood Presbyterian Med Ctr	434	100,813	65.8%	33.6%	53.2%	9.0%	0.0%	4.2%
USC University Hospital	285	61,247	58.9%	49.3%	4.8%	44.6%	0.0%	1.3%
Western Medical Center-Santa Ana	296	49,442	45.8%	29.8%	31.7%	30.3%	3.2%	4.9%
Whittier Hospital Medical Center	181	42,597	64.5%	15.7%	22.6%	56.1%	0.0%	5.7%
University of California	**1,258**	**301,240**	**65.6%**	**25.6%**	**18.8%**	**47.5%**	**2.6%**	**5.5%**
Santa Monica - UCLA	225	51,575	62.8%	30.9%	7.4%	58.4%	0.0%	3.2%
UCLA Medical Center	650	159,844	67.4%	29.0%	15.8%	50.0%	0.3%	4.8%
University of California Irvine	383	89,821	64.3%	16.6%	30.6%	36.7%	8.2%	8.0%
Other Hospitals	**7,864**	**1,888,749**	**69.2%**	**37.6%**	**24.5%**	**31.7%**	**0.4%**	**5.8%**
St. John's Hospital Health Center	221	77,130	95.6%	51.6%	1.4%	41.9%	0.0%	5.1%
Antelope Valley Hospital	347	92,652	73.2%	33.4%	20.4%	40.7%	0.0%	5.6%
Beverly Hospital	217	43,671	55.1%	43.0%	24.3%	27.8%	0.1%	4.7%
Cedars-Sinai Medical Center	849	252,850	81.6%	50.0%	9.1%	34.9%	1.8%	4.2%
Children's Hospital of Los Angeles	314	81,381	71.0%	0.7%	69.7%	26.6%	0.3%	2.6%
Children's Hospital Orange County	130	31,545	66.5%	0.0%	33.8%	63.6%	0.0%	2.6%
Downey Community Hospital	186	44,123	65.0%	44.0%	11.1%	41.9%	0.0%	3.0%
Good Samaritan Hospital	345	85,739	68.1%	50.8%	13.9%	33.4%	0.0%	1.9%
Henry Mayo Newhall Memorial Hospital	216	50,821	64.5%	52.5%	4.9%	35.1%	0.5%	7.0%
Hoag Memorial - Presbyterian	356	99,504	76.8%	39.0%	0.8%	53.8%	1.2%	5.2%
Long Beach Community	160	51,726	75.9%	30.9%	15.2%	51.1%	0.2%	2.5%
Pacifica Hospital of The Valley	233	43,806	53.6%	14.9%	66.2%	15.0%	0.0%	3.9%
Pomona Valley Hospital	381	89,253	64.2%	21.2%	29.7%	46.0%	0.1%	3.0%
Presbyterian Intercommunity	190	68,128	98.2%	41.5%	12.0%	43.7%	0.6%	2.3%
Torrance Memorial Medical Center	251	92,404	100.9%	28.5%	6.2%	62.4%	0.0%	2.9%
USC Norris Cancer Hospital	43	14,246	90.8%	45.9%	0.0%	52.9%	0.0%	1.2%
Valley Presbyterian Hospital	347	61,318	48.4%	42.7%	30.5%	24.8%	0.0%	2.0%
Total	26,765	6,030,783	61.2%	28.7%	24.1%	32.8%	3.6%	4.1%

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699) Hospitals with less than $50 million in net patient revenues included in system totals but not listed in table.
*Data based on less than 12 months of operations

Tenet Health is the largest hospital system in the area with 15.9% of the market. No other system has more than 10%.

misleading, because the County of Los Angeles hospitals show net income of $854.5 million, including $472.7 million in net income from operations. If those institutions were excluded from the analysis, the remaining hospitals had average profit margins of 3.4%. More than 40 hospitals reported losing money for the year.

Besides the county hospitals, the 28 Tenet hospitals were the most profitable in the Los Angeles area. They had profits of $203.2 million or 11.1% of total revenues. The three Adventist hospitals reported $24 million in profit from operations and an additional $20.5 million from other revenue sources. On the other hand, the Kaiser Foundation hospitals in Southern California reported losses of $104.9 million on total revenues of $1.5 billion. The Columbia-HCA hospitals in the area lost almost $16 million.

Average occupancy rates in Los Angeles hospitals were 61.2%, a little lower than in the Bay Area. *Exhibit 38* shows inpatient occupancy rates and payer mix for hospitals in the Los Angeles area.

A few systems and hospitals, such as Cedar-Sinai, had occupancy rates that were well above average. The average hospital in the area reported that third-party payers paid about one-third of their inpatient days. Traditional Medicare paid for 28.7% of inpatient days while Medi-Cal (not through managed care) paid for 24.1%. However, Los Angeles County hospitals saw half of their patient days paid for by Medi-Cal and one-third more paid for by special county funds for indigent care.

There has been a long-running debate about whether to rebuild some of the county's facilities and how big the replacement hospitals should be. Some have argued that there is already a significant oversupply of inpatient beds and that the county should devote additional resources to improving ambulatory care centers in underserved areas.

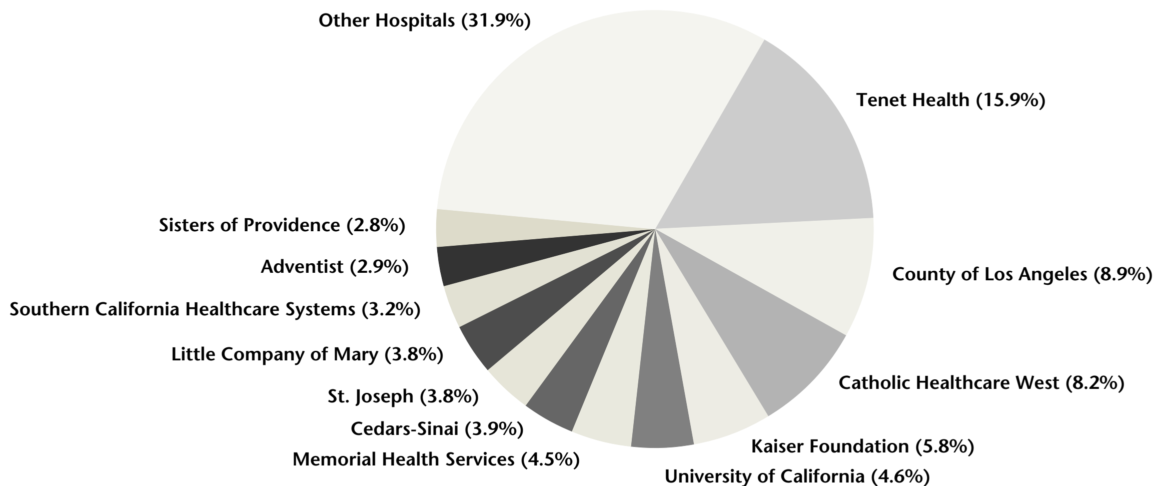
For some hospitals, a high proportion of traditional Medicare patients seems to be linked to strong profitability. The Tenet hospitals demonstrate that point. In the Los Angeles area, they had an average of 40% Medicare days and 11.1% profit margins. That pattern is found with Tenet operations in Florida and Texas, as well. Of course, there are other hospitals in Los Angeles with a high proportion of Medicare patients that lost money.

Exhibit 39 shows the relative market share of the largest hospital systems in Los Angeles, based on inpatient days. Tenet Health is the largest with 15.9% of the market. No other system has more than 10%. Catholic Healthcare West, Los Angeles County, and Kaiser hospitals are the next largest systems. It is important to note that a different definition of the geographic market would show, for example, the St. Joseph system in a prominent position in Orange County.

Exhibit 40 shows estimates of HMO market share in Los Angeles and Orange counties. About 7.8 million people in the area are enrolled in an HMO, which is about 61% of the population.

Exhibit 39

Market Share for Los Angeles Hospitals



About 40% of seniors in Los Angeles County are in a Medicare + Choice plan. The AAPCC at the beginning of 2001 is $674.00, the highest in the state. PacifiCare operates the largest Medicare plan, with about 142,000 seniors enrolled. Kaiser Permanente is the second largest.

Los Angeles County has nearly 1 million Medi-Cal enrollees in managed care arrangements, more than most states. It operates a two-plan Medi-Cal arrangement, but LA Care (the "public" plan) and Health Net, the commercial plan contractor, both subcontract with different health plans in the area. One of the health plans contracting with the county is Community Health Plan, which is operated by the county Department of Public Health. Orange County runs a County Organized Health System, known as CalOptima. It contracts with health plans and with organized systems of providers, called physician-hospital consortia.

While most Bay Area physicians organize through IPAs, more Los Angeles area doctors practice in medical groups. Besides the Permanente Medical Group, there are eight group practices in the area that report having 50,000 or more covered lives. *Exhibit 41* provides information about the medical groups and IPAs in Los Angeles and Orange counties.

The bankruptcies of FPA and MedPartners in 1998 and 1999, respectively, were particularly disruptive in Southern California, where both had most of their enrollees in the state. Physicians who sold their practices for stock found themselves without a place to practice. Some physician-entrepreneurs have sought to pick up the pieces of those groups. One example is KPC/Chaudhuri Medical Centers. That group was operating what remains of the medical groups once known as Friendly Hills Health Care Network and Mullikin Medical Center, both of which were once well-known names in Southern California health care. However KPC/Chaudhuri ran into significant difficulties in securing the capital needed to keep the physician groups going and eventually sought bankruptcy protection.

Several medical groups, such as Healthcare Partners, provide administrative services to IPAs, creating a wrap-around structure. The medical group expands its geographic reach and capacity, and the IPA gets access to the administrative systems and stability of the medical group. In theory, the IPA doctors could also participate in quality improvement initiatives with the medical group doctors, but that does not usually happen. The relationships are not exclusive, so the doctors are also participating in other IPAs for their managed care contracts.

In interviews, several people mentioned that payment rates to physicians in Southern California are typically lower than what similar groups receive in Northern California. There are no data available to confirm this since the terms of these contracts are proprietary. It was also heard that some medical groups in the southern part of the state have demonstrated stronger capability to manage care and finances in a capitated environment. The health plans will pay what the market will bear, which suggests that physicians in Southern California have been willing and apparently able to contract for less money. In a sense, they have been penalized for their own efficiency.

For some hospitals, a high proportion of traditional Medicare patients seems to be linked to strong profitability.

Exhibit 40

Estimated Market Share for Los Angeles HMOs

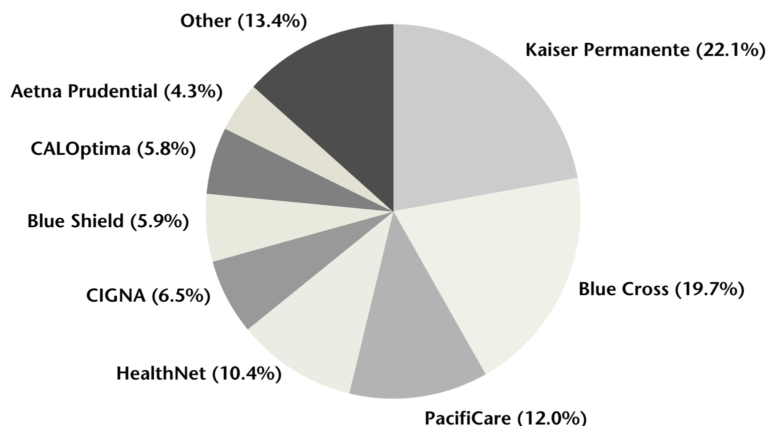


Exhibit 41

Los Angeles Area Physician Organizations

Name of Physician Organization	Estimated Enrollment	Number of Primary Care Physicians	Number of Specialists	Management Service Organization	Notes
Medical Groups					
Adventist*	87,000	146	291	Adventist Health Southern California Medical Foundation, Inc	Foundation model with IPA panel
Bright Medical Associates	58,400	66	150	Integrated Medical Management, Inc	Includes IPA type panel
Community Medical Group of West Valley	45,000	54	61	Progressive Healthcare Systems LLC	Includes IPA type panel
Employee Health System Medical Group, Inc (EHS)	23,400	140	274	Employee Health System Medical Group, Inc.	Includes IPA type panel
Facey	79,900	54	56	Facey Medical Foundation	Foundation model
Gallatin Medical Foundation	24,500	110	27	Gallatin Medical Foundation	Foundation model with IPA
Greater Valley Medical Group, Inc	50,000	31	0	Medical Network Services	
Harriman Jones	53,300	30	119	Harriman Jones Management Services	Includes referral specialist contractors
Healthcare Partners Medical Group, Inc.*	270,000	100	300		
5/00 Healthcare Partners, Ltd.					
High Desert Medical Group	43,000	37	108	Heritage Medical Systems	Includes IPA type panel
KPC / Chaudhari Medical Centers	445,000	251	436	Global Healthcare Management Corp.	
Medical Institute of Little Company of Mary	32,000	134	300	Little Company of Mary Health Services Medical Institute	Foundation model with IPA
Molina Medical Centers	52,000	N/A	N/A	Molina Medical Centers	
Prairie Medical Group, Inc	41,000	22	94	Integrated Physician Services	
Southern California Permanente Medical Group	1,453,100	823	1275	Southern California Permanente Medical Group, Inc.	
IPAs					
Allied Physicians of California Medical Group, Inc	41,000	313	270	Network Medical Management, Inc	
Bay Area Community Medical Group	52,000	55	95	Santa Monica Physicians Health Services, Inc.	
Caremore Medical Group, Inc.	45,000	139	200	Caremore Medical Management Company	
County of Orange Medical Group, Inc.	17,000	190	400	Sterling Health Care	
Global Care Medical Group IPA	15,500	118	220	Medpoint Management, Inc	
Health Source Medical Group, Inc.	65,000	188	236	Health Source Medical Group, Inc.	
La Vida Medical Group	54,500	130	200	La Vida Medical Group IPA	
Lakeside Medical Group, Inc.	80,000	180	860	Lakeside Healthcare, Inc.	
Lakewood Health Plan Inc., A Medical Group	19,500	102	80	South Coast MSO	
Latino Care Doctor's Network Medical Group, Inc	17,000	114	237	Latino Care Management	
Noble Community Medical Associates	21,000	117	189	CAP Management Systems	
Northridge Medical Group, Inc	42,000	105	210	Meridian Health Care Management	
OmniCare Medical Group	41,100	72	102	Advanced Medical Management, Inc	
Pacific Independent Physicians Association	16,500	199	197	California Management Services Enterprises	
Physician Associates of the San San Gabriel Valley, A Medical Group, Inc.*	145,000	320	400	Physician Associates of the San Gabriel Valley, A Medical Group, Inc.	
Physicians Healthways Medical Corp.	12,300	127		Central Management MSO	
Pro Med Health Network of Pomona Valley	63,500	120	170	Pro Med Healthcare Administrators	
Prospect Medical Group, Inc.	2,000	266	0	Prospect Medical Holdings	
Regal Medical Group, Inc./San Gabriel Valley Medical Group Inc.	15,100	121	122		

Exhibit 41, continued

Los Angeles Area Physician Organizations, continued

Name of Physician Organization	Estimated Enrollment	Number of Primary Care Physicians	Number of Specialists	Management Service Organization	Notes
Thrifty HealthCare/Preferred IPA	48,000	106	235	Thrifty Management Services	
Torrance Hospital IPA	65,400	106	235	THIPA Management Consultants, Inc	
UCLA Medical Group	39,000	174	939	UCLA Medical Center	
Unified Physicians of South Bay Medical Group, Inc	22,000	140	210	Healthcare Partners, Ltd.	
University Affiliates IPA, Inc.	82,700	548	1545	USC University Affiliates IPA, Inc.	
Orange County Medical Groups					
Gateway Medical Group, Inc.	45,000	53	200	StarCare Medical Group, Inc.	Includes IPA type panel
Mullikin Medical Centers/ Chaudhari Medical Group	165,000	96	130	Global Healthcare Management Corp.	
St. Jude Heritage Medical Foundation	396,300	435	763	St. Joseph Heritage Health Foundation	Foundation with IPA panel
Talbert Medical Group, Inc.	34,000	58	172	Talbert Medical Management	
Southern California Permanente Medical Group, Inc.	313,562*	N/A	N/A	Southern California Permanente Medical Group, Inc.	
IPAs					
Arta Health Network, Inc	20,100	253	321	Western Medical Management Group	
California Hispanic Medical Group	2,450	76	42	Advanced Medical Management, Inc.	
County of Orange Medical Group	24,000	86	144	Sterling Healthcare	
Edward Medical Group	4,500	121	299	Advanced Medical Management, Inc.	
Exceptional Care Medical Group, Inc.	1,800	106	176	CAP Management Systems (CMS)	
Family Choice Health Network CalOptima	38,500	147	258	CAP Management Systems, (CMS)	
Greater Newport Physicians Medical Group, Inc.	103,300	100	95	Greater Newport Physicians Medical Group, Inc.	
Monarch Health Care, A Medical Group, Inc.	134,000	216	348	Monarch Health/Vectis Medical Management	
Noble-Mid IPA- CalOptima	11,000	137	96	CAP Management Systems	
Northwest Orange County Medical Group, Inc	19,400	96	123	Harriman Jones Management Services	
Orange County Physicians IPA	17,000	137	96	Pinnacle Health Resource	
Personal Care Medical Group	15,500	147	258	Sterling Healthcare	
Premier Medical Group, Inc.	3,000	95	280	Prospect Medical Holdings, Inc.	
Prospect Medical Group	37,600	189	318	Prospect Medical Holdings, Inc	

Source: Author's analysis of Cattaneo & Stroud, Inc., "Medical Group Units Sorted Alphabetically by County," April 2000. Accessed through password-protected area of website, www.cattaneostroud.com
For asterisked groups, the source is our own contacts in April, May and June of 2000.

Inland Empire

The counties of San Bernardino and Riverside in Southern California are known as the Inland Empire. The population there is growing faster than in most other parts of the state, adding about 2% a year. In some cases, health care delivery systems here overlap with systems from Los Angeles,

Exhibit 42

Revenues and Profitability for Inland Empire Area Hospitals

System/Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operations	Total Margin	% of Total Revenue
Catholic Healthcare West		**180,342,956**	**185,009,247**	**(2,900,584)**	**1,329,652**	**0.7%**
Community Hospital of San Bernardino	San Bernardino	84,049,481	77,445,449	7,404,257	6,243,821	7.0%
St. Bernardine Medical Center	San Bernardino	96,293,475	107,563,798	(10,304,841)	(4,914,169)	-4.7%
Kaiser Foundation		-	-	-	-	
Tenet Health		**241,112,294**	**215,059,655**	**27,946,908**	**28,440,597**	**11.6%**
Desert Regional Medical Center	Palm Springs	167,875,514	152,989,758	16,491,053	16,985,236	9.9%
John F. Kennedy Memorial Hospital	Indio	57,482,030	46,528,596	11,176,006	11,346,993	19.5%
Rancho Springs Medical Center	Murrieta	15,754,750	15,541,301	279,849	108,368	0.7%
Valley Health		**133,689,673**	**139,732,936**	**(3,436,688)**	**1,284,344**	**0.9%**
Hemet Valley Medical Center	Hemet	82,298,688	84,214,703	(533,093)	2,267,915	2.6%
Menifee Valley Medical Center	Sun City	26,339,672	27,791,701	(1,072,875)	(329,333)	-1.2%
Moreno Valley Community Hospital	Moreno Valley	25,051,313	27,726,532	(1,830,720)	(654,238)	-2.4%
Other		**1,849,842,370**	**1,876,605,673**	**24,805,365**	**74,711,731**	**3.8%**
San Gorgonio Memorial Hospital	Banning	15,557,111	16,333,948	(721,072)	(697,902)	-4.5%
Columbia Chino Valley	Chino	40,097,687	49,915,299	(9,475,728)	(9,418,630)	-23.2%
Barstow Community Hospital	Barstow	22,654,157	20,791,155	1,911,628	1,933,154	8.5%
Palo Verde Hospital	Blythe	13,139,121	10,051,346	3,119,060	1,848,386	14.0%
Sharp Healthcare Murrieta	Murrieta	34,919,838	34,476,460	618,779	817,591	2.3%
St. Mary Regional Medical Center	Apple Valley	71,824,471	70,123,974	2,788,314	3,207,444	4.3%
Loma Linda University	Loma Linda	420,875,200	450,360,244	(1,812,216)	8,256,181	1.8%
Riverside Community Hospital	Riverside	105,254,215	101,607,714	4,527,530	5,480,776	5.1%
San Antonio Community Hospital	Upland	130,176,030	137,870,853	(5,736,600)	4,392,318	3.1%
Riverside County Regional Med Ctr	Moreno Valley	188,472,691	168,585,669	24,368,215	35,041,771	17.0%
Eisenhower Medical Center	Rancho Mirage	155,004,289	175,196,681	(14,474,138)	861,078	0.5%
Arrowhead Regional Medical Center	Colton	63,153,154	57,783,389	7,236,765	7,917,560	11.2%
San Bernardino County	San Bernardino	167,562,233	125,899,005	43,912,182	44,956,420	26.3%
Corona Regional -Magnolia	Corona	57,686,343	68,334,703	(9,663,074)	(16,861,096)	-27.7%
Redlands Community Hospital	Redlands	63,327,814	65,102,289	(1,175,268)	2,054,899	3.1%
Hi-Desert Medical Center	Joshua Tree	33,074,633	33,350,157	43,779	750,886	2.2%
Victor Valley Community Hospital	Victorville	37,467,391	46,140,390	(8,494,337)	(8,828,683)	-23.2%
Parkview Community Hospital	Riverside	61,431,904	71,351,624	(8,915,039)	(8,523,831)	-13.3%
U S Family Care Med Ctr - Montclair	Montclair	23,396,659	22,922,133	587,694	355,865	1.5%
Inland Valley Regional Medical Center	Wildomar	30,159,396	33,262,957	(2,967,705)	(2,994,470)	-9.8%
Desert Valley Hospital	Victorville	32,855,373	32,949,597	140,156	1,083,051	3.2%
Heritage Hospital	Rancho Cucamonga	22,647,956	22,814,212	(126,444)	57,924	0.3%
Northern Inyo Hospital	Bishop	21,217,154	20,548,707	861,543	1,832,411	8.2%
Colorado River Medical Center	Needles	15,396,406	14,175,358	1,675,896	1,675,896	10.6%
Mountains Community Hospital	Lake Arrowhead	7,437,817	10,582,445	(2,563,894)	(322,456)	-3.1%
Mammoth Hospital	Mammoth Lakes	8,877,190	10,493,212	(1,572,596)	(596,712)	-6.0%
The Heart Hospital Inc.	Rancho Mirage	6,176,137	5,582,152	711,935	431,900	6.8%
Total		2,404,987,293	2,416,407,511	46,415,001	105,766,324	4.1%

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)

Orange County, or San Diego. But, for the most part, the groups are focused on those two counties.

Hospital system building has been much less prominent in the Inland Empire than in other parts of the state. Catholic Healthcare West, Kaiser, and Tenet all have hospitals, but the largest hospitals are still independent. The four systems combined have about one-third of the inpatient volume, while other hospitals have the rest. *Exhibit 42* summarizes information on the financial performance

Exhibit 43

Occupancy and Payer Mix for Inland Empire Area Hospitals

Hospital	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% Other Third Parties	% County Indigent	% Other Payers
Catholic Healthcare West	**542**	**120,558**	**60.9%**	**33.1%**	**31.9%**	**32.5%**	**0.3%**	**2.3%**
Community of San Bernardino	274	56,329	56.3%	30.9%	48.7%	18.9%	0.6%	0.9%
St. Bernardine Medical Center	268	64,229	65.7%	34.9%	17.3%	44.4%	0.0%	3.5%
Kaiser Foundation	**528**	**116,038**	**60.2%**	**3.8%**	**0.4%**	**95.7%**	**0.0%**	**0.0%**
Kaiser Foundation - Fontana	333	78,044	64.2%	3.8%	0.6%	95.6%	0.0%	0.0%
Kaiser Foundation - Riverside	195	37,994	53.4%	3.8%	0.2%	96.0%	0.0%	0.0%
Tenet Health	**418**	**110,570**	**83.5%**	**33.4%**	**25.8%**	**36.2%**	**0.9%**	**3.7%**
Desert Regional	189	67,645	98.1%	35.1%	20.0%	40.1%	0.4%	4.4%
John F. Kennedy Memorial	130	30,171	63.6%	35.7%	36.1%	24.4%	2.0%	1.8%
Rancho Springs	99	12,754	79.5%	19.4%	31.7%	43.5%	0.6%	4.8%
Valley Health	**533**	**127,441**	**65.5%**	**35.2%**	**18.5%**	**38.2%**	**0.1%**	**7.9%**
Hemet Valley Medical Center	377	92,084	66.9%	49.3%	3.2%	45.4%	0.1%	2.0%
Menifee Valley Medical Center	84	19,122	62.4%	36.1%	23.8%	36.2%	0.1%	3.7%
Moreno Valley Community	72	16,235	61.8%	44.2%	16.1%	36.8%	0.7%	2.3%
Other	**3,836**	**895,620**	**68.2%**	**25.4%**	**26.9%**	**39.8%**	**3.8%**	**4.1%**
San Gorgonio Memorial	40	13,627	93.3%	44.2%	16.1%	36.8%	0.7%	2.3%
Columbia Chino Valley	58	26,073	123.2%	35.2%	13.1%	43.0%	0.0%	8.7%
Barstow Community Hospital	40	10,971	75.1%	47.3%	15.9%	32.2%	0.0%	4.6%
Palo Verde Hospital	35	5,368	42.0%	45.0%	22.2%	25.0%	0.4%	7.5%
Sharp Healthcare Murrieta	91	28,842	86.8%	20.4%	37.4%	38.4%	0.2%	3.6%
St. Mary Regional	183	42,337	63.4%	41.2%	16.0%	40.8%	0.0%	1.9%
Loma Linda University	653	179,268	75.2%	16.3%	35.0%	46.2%	0.5%	2.0%
Riverside Community Hospital	329	62,182	51.8%	27.2%	6.1%	59.0%	1.3%	6.3%
San Antonio Community	299	66,360	60.1%	29.3%	17.1%	51.1%	0.0%	2.6%
Riverside County Regional	282	55,533	54.0%	4.5%	49.3%	11.9%	26.9%	7.3%
Eisenhower Medical Center	261	59,273	62.2%	51.7%	6.1%	40.0%	0.2%	2.0%
Arrowhead Regional	238	15,943	73.6%	9.2%	49.0%	12.2%	26.0%	3.6%
San Bernardino County	238	44,075	68.1%	9.4%	48.4%	12.0%	26.5%	3.7%
Corona Regional -Magnolia	210	42,881	55.9%	34.5%	21.0%	42.4%	0.2%	1.9%
Redlands Community Hospital	177	43,932	68.0%	18.2%	8.1%	70.6%	0.1%	2.9%
Hi-Desert Medical Center	175	46,468	72.7%	16.0%	74.3%	6.9%	0.0%	2.8%
Victor Valley Community Hospital	119	27,496	63.3%	31.6%	23.2%	32.7%	1.9%	10.7%
Parkview Community Hospital	109	39,109	98.3%	16.7%	26.5%	49.5%	0.4%	6.8%
U S Family Care - Montclair	51	14,760	79.3%	18.8%	20.2%	57.1%	0.0%	3.8%
Inland Valley Regional	50	17,736	97.2%	24.6%	7.2%	60.7%	0.7%	6.8%
Desert Valley Hospital	47	16,878	98.4%	15.8%	9.5%	70.7%	0.0%	4.0%
Heritage Hospital	40	14,644	100.3%	97.5%	0.0%	2.4%	0.0%	0.1%
Northern Inyo Hospital	32	3,705	31.7%	47.9%	17.8%	25.7%	6.5%	2.2%
Colorado River Medical Center	30	8,388	76.6%	44.3%	13.3%	13.9%	0.0%	28.5%
Mountains Community Hospital	22	8,004	99.7%	16.5%	61.7%	12.3%	0.0%	9.6%
Mammoth Hospital	15	852	15.6%	18.4%	8.3%	57.6%	3.2%	12.4%
The Heart Hospital Inc.	12	915	20.9%	79.9%	0.0%	19.6%	0.0%	0.5%
TOTAL	5,324	1,370,227	67.4%	25.8%	24.2%	43.5%	2.6%	3.9%

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)

Hospital system building has been much less prominent in the Inland Empire than in other parts of the state. Catholic Healthcare West, Kaiser, and Tenet all have hospitals, but the largest hospitals are still independent. The four systems combined have about one-third of the inpatient volume, while other hospitals have the rest.

of hospitals in the area for fiscal periods ending in 1998-1999.

As shown in the table, the 35 hospitals in the Inland Empire counties averaged net profits of 4.1%. Again, the Tenet hospitals had some of the highest profits in the group. Riverside County Regional Medical Center reported a net profit of $35.0 million, including revenues from other sources. On the other hand, 17 hospitals lost money on their patient care operations.

Inpatient hospital occupancy averaged 67.4% in 1999. As *Exhibit 43* shows, traditional Medicare paid for 25.8% of inpatient hospital days, lower than in the other regions examined.

About 2 million residents in the area are in HMOs, with about one-fourth in Kaiser Permanente. Blue Cross, Blue Shield, HealthNet, and PacifiCare all have significant enrollment in the region.

About 230,000 Medi-Cal recipients are in managed care. Medi-Cal managed care is run as a two-plan system here, and the two counties have collaborated to form Inland Empire Health Plan, which has about 75% of the enrollees. Molina Medical is the second plan. Both counties operate public hospitals, and each has a network of public clinics. The traditional providers for Medi-Cal enrollees formed IPAs so they could continue to contract for those patients.

More than 50% of seniors are in Medicare+Choice plans. PacifiCare has the largest senior plan in the county, with Kaiser Permanente the second largest.

Exhibit 44 provides an overview of the physician organizations in Riverside and San Bernardino counties. PrimeCare Medical Network is organized as an IPA of IPAs. It has a limited Knox-Keene license and reports 123,000 covered lives in the health plan. Outside of the Permanente doctors, IPAs report more enrollees than the medical groups. Among the medical groups, Loma Linda University HealthCare reported the largest physician staff.

Exhibit 44

Inland Empire Area Physician Organizations*

Name of Physician Organization	Estimated Enrollment	Number of Primary Care Physicians	Number of Specialists	Management Service Organization	Notes
Medical Groups					
Beaver Medical Group	87,000	72	65	Epic Management	Includes IPA type panel
Community Medical Group of Corona	35,500	32	188	KPC Global Care	Includes IPA type panel
Inland Global Care	45,000	45	80	KPC Global Care	Includes IPA type panel
Loma Linda University HealthCare*	37,000	41	450	Adventist Health Managed Care	Includes IPA type panel
United Family Medical Group	42,600	27	69	Global Care HealthCare Management Corp.	Includes referral specialist contractors
Riverside Medical Clinic	75,000	58	50	Riverside Medical Clinic	
Southern California Permanente Medical Group*	552,847	N/A	N/A	Southern California Permanente Medical Group, Inc.	
IPAs					
Hemet Community Medical Group	36,000	64	172	KPC Global Care	
Inland Health Organization IPA	28,000	72	167	Inland Health Organization, Inc.	
Oasis IPA Medical Group	9500	73	101	Heritage Medical Systems	
Pro Med Health Network of Pomona Valley	12,500	79	50	Pro Med Healthcare Administrators	
PrimeCare Medical Network*	238,834	459	900	North American Medical Management	Includes 11 IPA groups and 1 group practice:
Riverside Physicians Network Medical Group, Inc.	55,000	71	210	KPC Global Care	
Vantage Medical Group	28,200	100	350	Primary Professional Management Company	

Source: Author's analysis of Cattaneo & Stroud, Inc., "Medical Group Units Sorted Alphabetically by County," April 2000. Accessed through password-protected area of website, www.cattaneostroud.com
For asterisked groups, the source is our own contacts in April, May and June of 2000.
*Includes San Bernardino, Riverside and Imperial Counties

San Diego

Even as development continues along the Interstate 5 corridor, San Diego remains a distinct geographical area and health care market. Its three largest hospital systems are rooted in San Diego, while the systems that have been prominent in much of the rest of the state are generally not present. People both inside and outside of Kaiser Permanente reported that Kaiser in San Diego is different from Kaiser in the rest of Southern California—different in that the doctors practice more conservatively and because of the number of white-collar employer groups that choose Kaiser.

Exhibit 45 depicts the inpatient market share of the hospital systems in San Diego. The Sharp hospitals have the largest share, at 29%. Scripps is a distant second, followed by the Palomar Pomerado hospitals, University of California-San Diego, and the Kaiser hospital.

System development has been very important to the hospitals here. Columbia-HCA almost entered the market in 1997 in a deal with Sharp that aroused enormous controversy, partly stemming from concerns that the hospitals would reduce their role in caring for indigent patients. However, that deal fizzled out. Tenet has a small presence, but otherwise the hospitals are non-profit. *Exhibit 45* shows the location of the acute care hospitals in San Diego and their system affiliations.

Exhibit 46 compares hospitals in San Diego on their revenues and profitability. On average, they reported profits of 5% of total revenues. As a group they earned $90.6 million on patient operations plus another $54 million from other revenues. Tenet Health hospitals had the highest margins, while the Sharp hospitals had combined margins of 4.1%. The Scripps hospitals broke even on their operations and had an overall margin of 1.2%.

Average inpatient occupancy for San Diego hospitals was 69.1% in 1999, a little higher than in the other regions. The Palomar Pomerado hospitals and Sharp hospitals were both well above average for occupancy. *Exhibit 47* shows occupancy and payer mix data for San Diego hospitals. On average, traditional Medicare paid for 26.5% of inpatient days, and Medi-Cal paid for 25.9%.

Hospital capacity is an ongoing issue in the San Diego area. Scripps recently closed its East County location, and Triad closed the Mission Bay Hospital in December 2000. Columbia/HCA previously owned Mission Bay. Kaiser operates a single hospital in San Diego County, which seems to be the right amount of capacity. In the past, it has considered adding a second location in the northern part of the county. Instead of building a new hospital, it has built closer ties to some of the hospitals there and has expanded the capabilities of some of its ambulatory clinics.

The requirements for rebuilding hospitals to comply with the seismic standards could have a significant impact on San Diego hospitals. In the downtown area, for example, Scripps Mercy Hospital is near the University of California-San Diego Medical Center. Both would require significant investment in the future, yet it is unlikely that both hospitals will be fully needed.

Sharp operates its own HMO, although other payers cover most of the patients coming to the hospitals. The Scripps hospitals sought a limited Knox-Keene license a few years ago, but then abandoned that strategy in favor of another. Last year, the Scripps hospitals began renegotiating their major health plan contracts with the aim of ending capitation arrangements. This in turn significantly changed its relationships with physician organizations that accepted capitation risk as part of those managed care contracts. In short, Scripps went

Hospital capacity is an ongoing issue in the San Diego area. The requirements for rebuilding hospitals to comply with the seismic standards could have a significant impact on San Diego hospitals.

Exhibit 45

San Diego Hospital Market Share

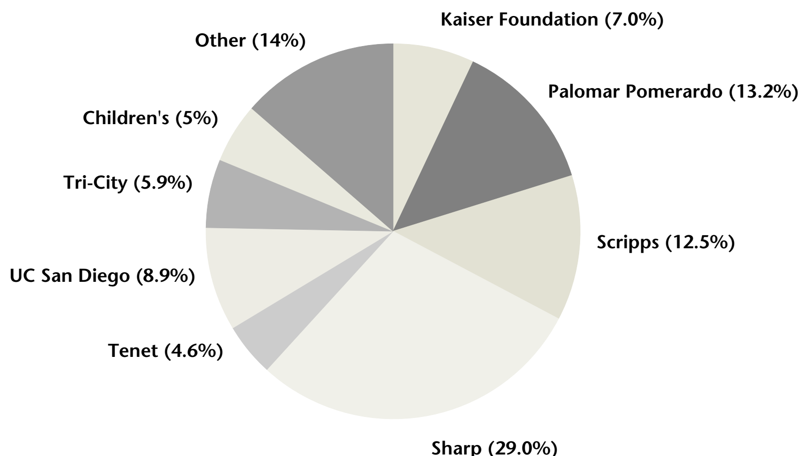
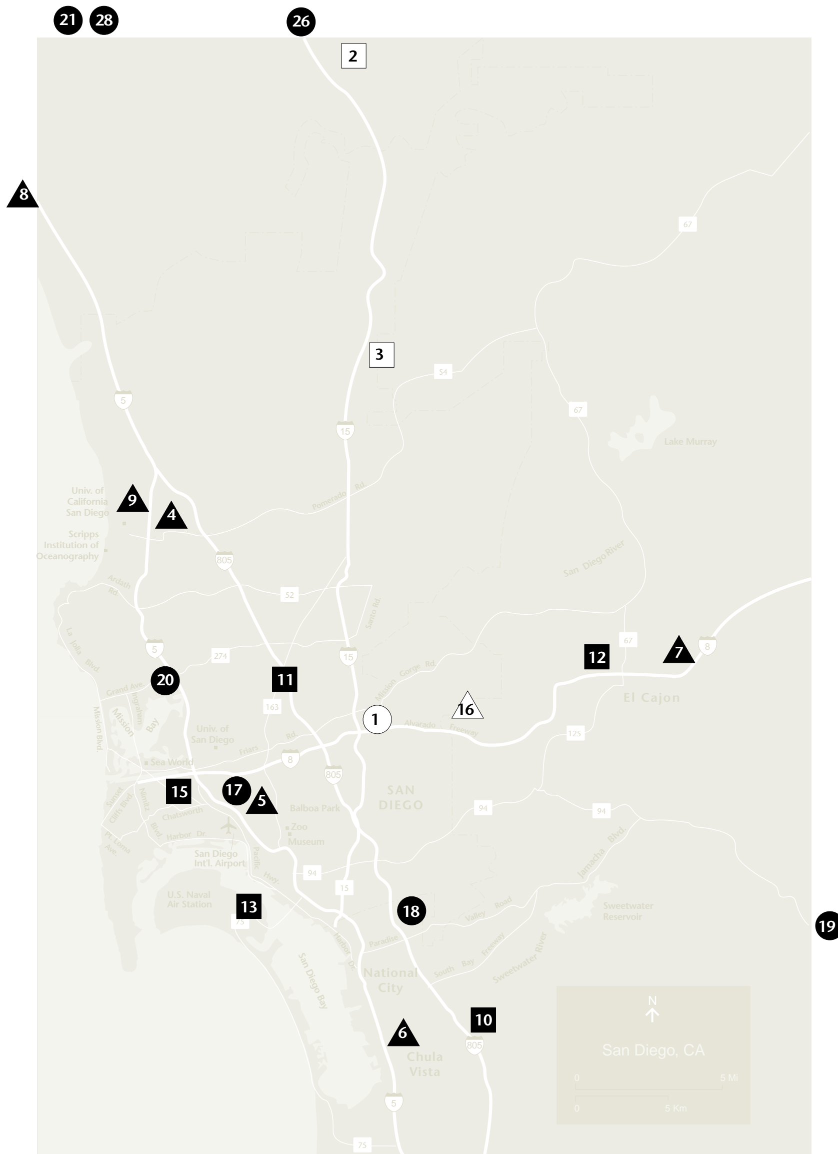


Exhibit 46

San Diego Hospitals and Systems



San Diego Hospital Map Legend

	System/Hospitals	City
○	**Kaiser Foundation**	**San Diego**
1	Kaiser Foundation	
□	**Palomar Pomerado**	
2	Palomar Medical Center	Escondido
3	Pomerado Hospital	Poway
▲	**Scripps**	
4	Scripps Memorial Hospital - La Jolla	La Jolla
5	Scripps Mercy Hospital	San Diego
6	Scripps Memorial Hospital - Chula Vista	Chula Vista
7	Scripps Hospital - East County	El Cajon
8	Scripps Memorial Hospital - Encinitas	Encinitas
9	Green Hospital	La Jolla
■	**Sharp**	
10	Sharp Chula Vista Medical Center	Chula Vista
11	Sharp Memorial Hospital	San Diego
12	Grossmont Hospital	La Mesa
13	Sharp Coronado Hospital	Coronado
14	Sharp Mary Birch Hospital for Women	San Diego
15	Sharp Cabrillo Hospital	San Diego
△	**Tenet Health**	
16	Alvarado Hospital Medical Center	San Diego
●	**Other**	
17	University of California-San Diego	San Diego
18	Paradise Valley Hospital	National City
19	Pioneers Memorial Hospital	Brawley
20	Mission Bay Hospital	San Diego
21	Tri-City Medical Center	Oceanside
22	San Diego County Psychiatric	San Diego
23	Children's Hospital	San Diego
24	Continental Rehab Hosp	San Diego
25	El Centro Regional	El Centro
26	Fallbrook Hospital District	Fallbrook
27	Villa View Community	San Diego
28	San Luis Rey Hospital	Encinitas

from a strategy of wanting to be an insurer to saying, "We are a provider network for rent."

About 1.7 million people in the San Diego area belong to an HMO, or about 56% of the population. *Exhibit 49* presents an estimate of how market share is divided. Kaiser Permanente is the largest health plan in San Diego, with about 31% of the enrollment. PacifiCare is the second-largest. It has more than 105,000 seniors in Secure Horizons in San Diego County, which is about two-thirds of the Medicare+Choice enrollment in the area. About 47% of seniors in the county belong to an HMO.

San Diego's employer community is mostly small and medium-size firms. While some companies in the Pacific Business Group on Health have San

Exhibit 47

Revenues and Profitability for San Diego Hospitals

System/Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operatrions	Total Margin	% of Total Revenue
Kaiser Foundation*						
Palomar Pomerado		**200,508,538**	**216,824,697**	**(11,173,763)**	**381,908**	**0.1%**
Palomar Medical Center	Escondido	144,486,457	157,356,268	(8,549,642)	104,785	0.1%
Pomerado Hospital	Poway	56,022,081	59,468,429	(2,624,121)	277,123	0.5%
Scripps		541,437,344	564,892,594	2,630,866	6,674,867	1.2%
Scripps Memorial Hospital - La Jolla	La Jolla	148,674,087	152,258,603	4,297,823	5,768,085	3.7%
Scripps Mercy Hospital	San Diego	162,491,291	165,031,978	2,370,989	4,071,215	2.4%
Scripps Memorial Hospital - Chula Vista	Chula Vista	52,163,788	57,238,758	(2,123,418)	(1,565,958)	-2.8%
Scripps Hospital - East County	El Cajon	30,766,479	36,713,536	(5,136,996)	(4,822,835)	-15.1%
Scripps Memorial Hospital - Encinitas	Encinitas	54,533,791	57,780,041	(1,427,450)	(1,425,558)	-2.5%
Green Hospital	La Jolla	92,807,908	95,869,678	4,649,918	4,649,918	4.6%
Sharp		**445,417,838**	**442,345,783**	**14,771,076**	**18,992,018**	**4.1%**
Sharp Chula Vista Medical Center	Chula Vista	79,330,667	73,543,160	6,094,325	3,652,972	4.5%
Sharp Memorial Hospital	San Diego	199,922,800	187,926,282	18,670,368	18,916,512	9.1%
Grossmont Hospital	La Mesa	144,481,629	148,144,168	(1,289,606)	2,035,393	1.3%
Sharp Coronado Hospital	Coronado	26,397,336	26,463,128	63,651	713,450	2.5%
Sharp Mary Birch Hospital for Women	San Diego	50,074,518	49,460,504	1,260,799	1,260,799	2.5%
Sharp Cabrillo Hospital	San Diego	24,541,555	30,351,701	(3,934,136)	(3,934,136)	-14.9%
Tenet Health		**112,815,144**	**97,772,592**	**15,919,954**	**15,923,772**	**13.7%**
Alvarado Hospital Medical Center	San Diego	99,362,285	82,289,037	17,941,214	17,884,367	17.5%
San Diego Rehabilitation Institute	San Diego	13,452,859	15,483,555	(2,021,260)	(1,960,595)	-14.5%
UC San Diego		**406,769,351**	**315,201,816**	**97,822,660**	**101,418,147**	**24.3%**
Other		**568,028,019**	**627,610,802**	**(29,390,805)**	**1,620,256**	**0.2%**
Paradise Valley Hospital	National City	76,889,291	77,519,122	619,600	2,019,476	2.5%
Pioneers Memorial Hospital	Brawley	32,889,874	35,915,521	(2,432,508)	(1,605,321)	-4.7%
Mission Bay Hospital	San Diego	21,657,633	25,412,135	(3,574,122)	(2,202,574)	-9.5%
Tri-City Medical Center	Oceanside	129,944,810	147,962,099	(15,351,540)	(6,403,749)	-4.5%
San Diego County Psychiatric	San Diego	41,349,531	48,750,551	(7,401,020)	-	0.0%
Children's Hospital	San Diego	163,099,331	183,835,203	3,688,003	13,974,126	7.0%
Continental Rehab Hosp	San Diego	17,465,357	18,574,833	(982,614)	(982,614)	-5.6%
El Centro Regional	El Centro	47,409,755	47,202,552	641,595	1,076,812	2.2%
Fallbrook Hospital District	Fallbrook	21,388,578	20,491,730	1,086,720	1,311,810	6.0%
Villa View Community	San Diego	7,902,481	10,558,550	(2,629,807)	(2,614,749)	-32.9%
San Luis Rey Hospital	Encinitas	8,031,378	11,388,506	(3,055,112)	(2,952,961)	-34.8%
Total		2,274,976,234	2,264,648,284	90,579,988	145,010,968	5.0%

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)
*Data for Kaiser Hospital included in Table 19 data.
**Triad Hospitals closed Mission Bay Hospital at the end of 2000.

Diego operations, the area has not seen much joint activity by employers.

Seven health plans participate in Medi-Cal managed care, competing with each other for about 155,000 enrollees. Seven plans is a lot for what is not a very large enrollee base, but the county seems inclined to let the market work to resolve the question of how many plans are needed.

San Diego is home to several nationally prominent medical groups, including the Scripps Clinic and the Sharp Rees Stealy medical group. *Exhibit 50* provides an overview of the major medical groups and IPAs in San Diego. At different times, the Scripps Clinic has gone in and out of relationships with the Scripps hospitals. In the most recent development, the Clinic and the hospitals are back together again. In an interview, one local observer described this process as putting the egg back into the shell after making scrambled eggs.

There is no longer a county hospital in San Diego, so the safety net is maintained largely by several area hospitals. The amount of funding provided from county sources for indigent care and other

Exhibit 48

Occupancy and Payer Mix for San Diego Hospitals

System/Hospitals	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% Other 3d Parties	% County Indigent	% Other Payers
Kaiser Foundation	**329**	**91,862**	**76.5%**	**4.9%**	**0.1%**	**95.0%**	**0.0%**	**0.0%**
Palomar Pomerado	**491**	**171,839**	**95.9%**	**21.3%**	**29.1%**	**34.5%**	**0.2%**	**14.9%**
Palomar Medical Center	310	105,876	93.6%	21.5%	27.7%	39.8%	0.3%	10.6%
Pomerado Hospital	181	65,963	99.8%	20.9%	31.3%	25.9%	0.0%	21.8%
Scripps	**685**	**163,784**	**39.7%**	**37.1%**	**13.1%**	**39.3%**	**3.1%**	**7.3%**
Scripps Memorial - La Jolla	422	72,416	47.0%	34.7%	6.0%	47.4%	1.4%	10.6%
Scripps Mercy Hospital	263	91,368	95.2%	32.6%	21.0%	32.4%	6.1%	7.9%
Scripps Memorial - Chula Vista	159	35,878	61.8%	40.9%	27.4%	20.6%	3.5%	7.6%
Scripps Hospital - East County	105	19,241	50.2%	50.5%	8.5%	33.4%	2.5%	5.1%
Scripps Memorial - Encinitas	93	33,740	99.4%	50.1%	5.4%	37.6%	2.2%	4.8%
Green Hospital	87	33,578	105.7%	29.9%	1.7%	66.0%	0.0%	2.3%
Sharp	**1,181**	**379,374**	**118.8%**	**25.7%**	**22.5%**	**43.7%**	**1.9%**	**6.2%**
Sharp Chula Vista	306	86,935	77.8%	27.7%	34.3%	24.7%	1.3%	12.0%
Sharp Memorial Hospital	236	87,632	101.7%	29.4%	10.9%	54.9%	2.8%	2.0%
Grossmont Hospital	227	79,051	95.4%	38.2%	15.9%	41.1%	3.1%	1.7%
Sharp Coronado Hospital	204	49,760	66.8%	11.5%	52.7%	8.5%	0.1%	27.2%
Mary Birch Hospital for Women	108	39,599	100.5%	0.3%	32.9%	65.4%	0.1%	1.3%
Sharp Cabrillo Hospital	100	36,397	99.7%	36.7%	12.3%	46.8%	1.4%	2.8%
Tenet	**311**	**59,927**	**52.8%**	**49.2%**	**12.4%**	**35.6%**	**0.2%**	**2.6%**
Alvarado Hospital	231	43,612	51.7%	41.6%	15.2%	39.7%	0.3%	3.2%
San Diego Rehabilitation Institute	80	16,315	55.9%	69.5%	5.0%	24.6%	0.0%	0.9%
UC San Diego	**478**	**116,705**	**66.9%**	**19.3%**	**30.8%**	**33.6%**	**9.9%**	**6.5%**
Other	**1,887**	**400,121**	**58.6%**	**25.2%**	**42.7%**	**24.8%**	**1.8%**	**5.5%**
Paradise Valley Hospital	236	51,116	59.3%	39.7%	36.4%	15.9%	3.6%	4.4%
Pioneers Memorial Hospital	107	13,900	35.6%	38.2%	29.4%	22.0%	5.3%	5.2%
Mission Bay Hospital*	33	11,096	92.1%	76.3%	1.2%	18.1%	0.0%	4.4%
Tri-City Medical Center	397	77,190	53.3%	33.6%	9.2%	52.4%	1.8%	3.1%
San Diego County Psychiatric	357	77,607	59.6%	0.1%	90.4%	0.0%	2.9%	6.6%
Children's Hospital - San Diego	247	67,390	74.7%	0.1%	58.5%	39.5%	0.0%	1.9%
Continental Rehab San Diego	110	22,336	55.6%	95.6%	0.0%	4.4%	0.0%	0.0%
El Centro Regional Medical Center	103	22,092	58.8%	36.7%	26.7%	19.6%	3.5%	13.6%
Fallbrook Hospital District	100	34,842	95.5%	15.0%	58.0%	12.7%	0.0%	14.3%
Villa View Community Hospital	100	8,525	28.2%	34.5%	51.5%	1.9%	1.5%	10.5%
San Luis Rey Hospital	97	14,027	39.6%	22.5%	6.8%	65.5%	0.0%	5.3%
TOTAL	5,362	1,383,612	69.1%	26.5%	25.9%	38.5%	2.4%	6.7%

Source: Author's analysis of Office of Statewide Health Planning and Development, "Hospital Annual Financial Data, 1998/99" (hafd0699)
* Triad Hospitals closed Mission Bay Hospital at the end of 2000.

public health needs is described by some critics as very low. The University of California-San Diego Medical Center plays some of the role associated with a county general hospital. Together with its faculty physicians, it operates an HMO for Medi-Cal enrollees as well as a small Medicare plan. UCSD went through a period in the mid-1990s when it purchased physician practices and developed management contracts with other clinics to expand its primary care base and hospital referrals. As with many hospital systems, it lost a great deal of money on those practices and came to regret that strategy.

Exhibit 49

Estimated HMO Market Share for San Diego

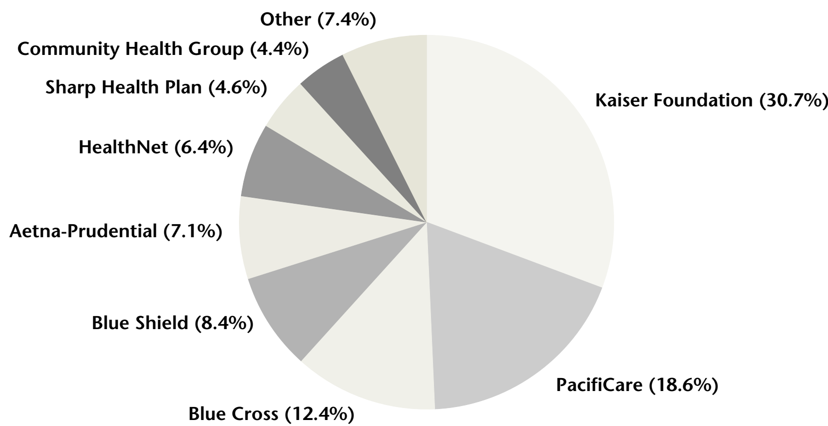


Exhibit 50

San Diego Physician Organizations

Name of Physician Organization	Estimated Enrollment	# of Primary Care Physicians	# of Specialists	Management Service Organization	Notes
Medical Groups					
Scripps Clinic Medical Group	132,000	86	192	Scripps Clinic Medical management, Inc	
Scripps Medical Foundation Mercy Health Centers	42,000	56	150	Southern California Physicians Managed Care Services, Inc.	Foundation model with IPA
Sharp Rees-Stealy Medical Group, Inc.	144,800	97	146	Sharp Rees-Stealy Medical Corp	
University of California - San Diego Health Care Network	48,910	94	448	UCSD Health Network	State Faculty Group
Southern California Permanente Medical Group	499,820	411	523	Southern California Permanente Group, Inc.	
IPAs					
Family Health Network	54,000	192	340	Best MSO	
Primary Care Associated Medical Group, Inc.	39,500	45	98	Primary Care Associated Medical Group	
San Diego Physicians Medical Group	58,500	60	146	Southern California Physicians Managed Care Services, Inc	
San Diego IPA, A Medical Group	1,000	105	500	Pacific Foundation for Medical Care	
San Diego Physicians Network	26,800	85	252	North American Medical Management	
Sharp Community Medical Group	111,700	163	455	Sharp Community Medical Group MSO	

Source: Author's analysis of Cattaneo & Stroud, Inc., "Medical Group Units Sorted Alphabetically by County," April 2000. Accessed through password-protected area of website, www.cattaneostroud.com
For asterisked groups, the source is our own contacts in April, May and June of 2000.

ABOUT THE AUTHOR

Allan Baumgarten is a nationally recognized consultant and analyst on health care policy and finance. Working with a variety of organizations, he helps them to analyze the market competition and health care policy issues they face and to develop business strategies to meet the challenges of changing markets and health reform. His clients include health plans, provider groups, vendors of pharmaceuticals, systems and devices, government agencies and employers.

Mr. Baumgarten is the author of *Minnesota Managed Care Review* and annual market studies for Colorado, Florida, Illinois, Michigan, Ohio and Texas. The California HealthCare Foundation has provided funding for him to prepare this report analyzing the California managed care market. He has published recent articles in publications such as *Health System Leader, Managed Care Quarterly* and *Business and Health.* He has presented his research to numerous national and local meetings, including the Agency for Health Care Policy and Research, American Association of Health Plans, National Managed Health Care Congress, and the Association for Health Services Research.

From 1988 to 1993, Mr. Baumgarten was Associate Director of the Citizens League, a nonprofit public affairs research, education and advocacy organization in Minneapolis-St. Paul, Minnesota. Before that, he was Staff Attorney and Evaluation Coordinator for the Legislative Auditor's office in St. Paul, Minnesota. There he directed studies of state agencies and their programs, including a study of how state agencies were regulating HMOs and other health plans. Mr. Baumgarten received his J.D. degree from the University of Minnesota Law School and an M.A. from the University's Hubert H. Humphrey Institute of Public Affairs.

ABOUT THE SPONSOR

The California HealthCare Foundation (CHCF), located in Oakland, is an independent health care philanthropy committed to making the health care system work better for the people of California. Created in 1996, CHCF focuses on critical issues in the following areas: health policy and regulation, health care delivery and financing, insurance and the uninsured, Medicare, Medi-Cal and Healthy Families, quality of care, and health. Grantmaking is directed at innovative research, development of model programs, and projects that will yield meaningful policy recommendations.