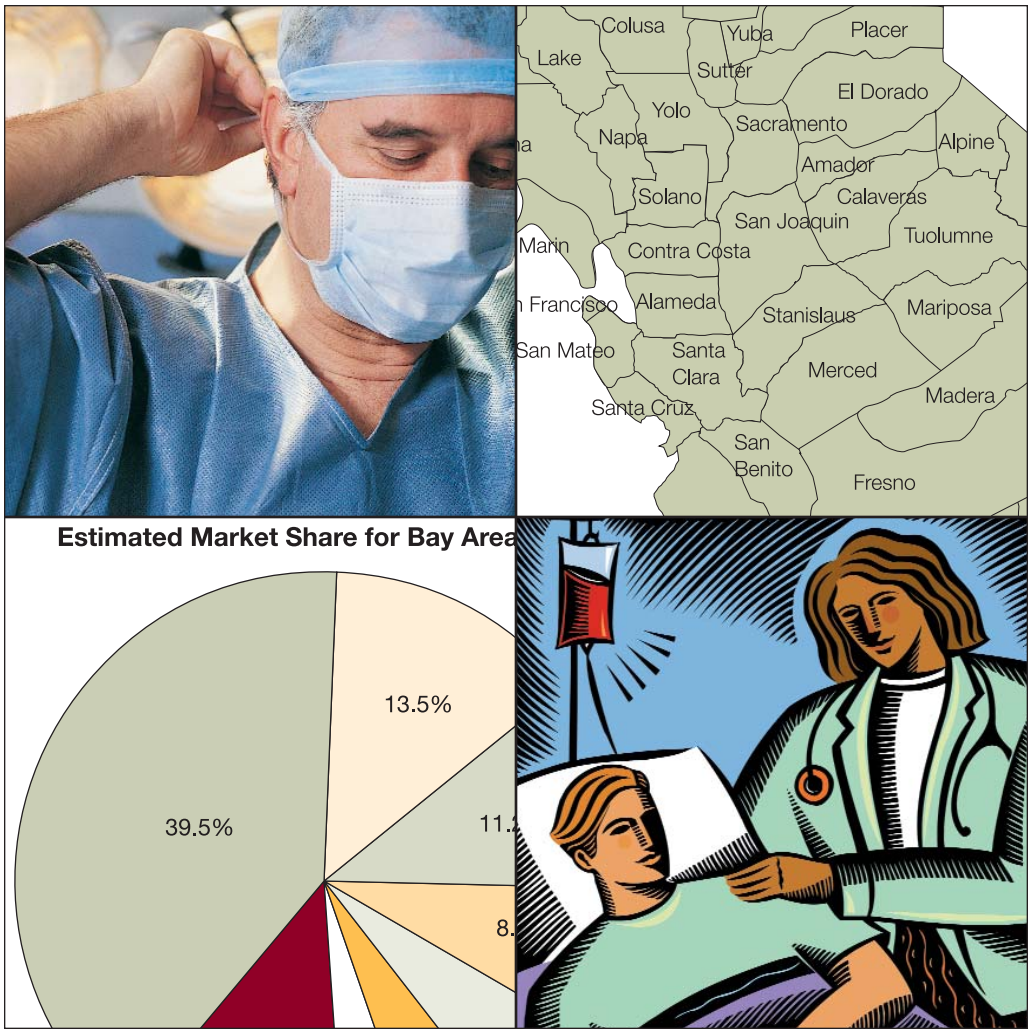
California HealthCare Foundation



California Managed Care Review 2002

Prepared by Allan Baumgarten

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Prepared for:
CALIFORNIA HEALTHCARE FOUNDATION

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ABOUT THIS REPORT

For better or for worse, most Americans have access to health care through insurance that is provided by their employer or by government programs. But employers do not want to administer health benefit plans, so most of them turn to managed care companies with familiar names like Blue Cross, Kaiser Permanente and PacifiCare to insure, organize, and administer those benefits. State Medicaid programs and the federal Medicare programs also look to these health plan companies to administer health benefits for their beneficiaries. Those organizations manage care and costs by creating incentives for enrollees to use certain providers or by rules that limit their access to certain kinds of care or providers.

California is the state where managed care first put down broad roots and where, in 2002, most of the population has health insurance administered by a managed care organization. This report is intended to be a resource for understanding the organizations that administer and provide health care and health plans in the state. This is the second annual edition of *California Managed Care Review*. The California HealthCare Foundation commissioned the report to provide an objective analysis of managed care market trends, and issues in the state, and comprehensive data on health care organizations that could be used by those who are involved in discussing and making health care policy.

This report weaves together the results of two kinds of research on health care issues and organizations. First, it examines health plans, hospital systems, and physician organizations through an analysis of data on financial results, enrollment trends, market share, and measures of utilization and effectiveness of care. The analysis is based on publicly available data on health plans and hospitals. The report then puts that data in the context of the issues of the day: changes in Medicaid and Medicare, relationships between health plans and provider organizations, purchaser initiatives, and so on. To complete this part of the report, the author conducted interviews, mostly in-person, with about 40 leaders in the market, people who were thoughtful and knowledgeable about different aspects of health care in California. These interviews, conducted between November of 2001 and May of 2002, were with executives of health plans, hospital systems, state associations, purchasers, and government agencies, among others.

The report is organized into four major sections. The first section presents an overview of the key findings of the research. The next part describes the health care organizations in the state, including health plans, provider organizations, and purchasers. It describes how these organizations relate to each other and how those connections are changing. The third section of the report provides a detailed analysis of health plans in the state, examining trends in enrollment, profitability, and measures of utilization and effectiveness of care. The author prepares similar market analyses for seven other states: Colorado, Florida, Illinois, Michigan, Minnesota, Ohio, and Texas. This report compares California HMOs with their counterparts in those other states on a series of measures. In the final section, the report examines health plans, provider organizations, and local issues in major regions of the state: the San Francisco Bay Area, Sacramento, the Central Valley (including Fresno and Bakersfield), Los Angeles-Orange County, the Inland Empire of Riverside and San Bernardino Counties, and San Diego. For each region, a series of exhibits displays information about the key health plans, hospital systems, and physician organizations.

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.

Managed care has evolved, and health plans have reduced their use of medical management tools to control utilization and costs. They have also expanded their provider networks, to offer broader choices. And they are less likely to pay providers using capitation contracts that created incentives for the providers to hold down utilization of care.

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.

I. OVERVIEW OF FINDINGS

The research for this report focuses on relationships and linkages between four key participants in the health care marketplace: providers, health plans, purchasers, and consumers. While it is convenient to view the health care world divided into four quadrants, this does not mean that everyone inside each quadrant gets along and shares the same objectives. For example, the gap and sometimes conflict between the interests of physician organizations and hospitals have become more conspicuous in the past few years. Among physicians, specialists, and primary care doctors sometimes find that their interests are at odds.

Here are some of the key findings from this report:

1. The environment has calmed down, at least in some respects. The first edition of this report, based on research conducted in 2000, described a market in significant turmoil. Doctors claimed that the sky was falling and that inadequate payments from health plans had caused the failure of numerous physician organizations. They offered gloomy predictions that many more would soon fail as well. The health plans pointed out that many of the failed provider groups had inadequate capital and poor management. In any event, the situation for provider organizations has improved, and the interval between announcements of the latest failure of a physician group is much longer than it was in 2000.

It is not insignificant that incoming physician leaders of the California Medical Association (CMA) are leaders in and advocates for managed care, and that Kaiser Permanente doctors make up a growing share of the membership. It may sound trite, but the temperature of the rhetoric has cooled, and the California State Assembly seems to be taking a more measured approach to proposals for new mandated benefits.

The environmental change should not be overstated; after all, the CMA remains a plaintiff in a lawsuit challenging many of the largest health plan companies. Furthermore, it is not clear if this relative calm is genuine or if it masks significant underlying problems. In a sense, providers and health plans have muted their differences as they pursued a common goal: capture significant premium increases. The report shows that commercial premium revenue increased by about 10% in 2000 calculated on a per-member per-month basis. Based on the comments made in the interviews, much of the new money coming into the system has improved the profitability of health plans, a large chunk went to hospital systems and some has filtered down to benefit the physicians with improved payment rates.

2. Relationships between health plans and providers continue to evolve. California's health plans have used a delegated model, where the HMOs transferred premium revenue in the form of capitation to different physician and hospital organizations. Significant responsibilities for care management, claims administration and provider credentialing were also delegated to the providers. That system has not collapsed, as some had predicted a few years ago, but neither is it the same as it was. For example, many hospitals have ended their risk-sharing agreements, though physicians groups continue to accept capitation. The evolution of health plan-provider is still incomplete and its ultimate direction is unclear.

In one recent development, the largest health plans and provider groups announced that they had reached an agreement to implement new payment systems by which performance would be measured using uniform metrics and good or improving performance would be rewarded with more money. While employers embraced the concept of pay for performance, they were less forthcoming in guaranteeing that they would provide additional money in their premiums to finance these new incentives.

3. Both health plans and hospitals are returning to notions of preferred providers and health plans. Many hospitals used their newly found leverage to exit from contracts in which they accepted significant capitation risk. That has been a key factor in the decision of some HMOs to exit the Medicare+Choice market, since their financial model required shifting risk to providers. Some hospitals systems went a step further, and said that they would no longer contract with every health plan in their area, but would seek to develop closer ties to a select group of health plans.

In turn, some of the largest health plans in the state have gone back to the future and reintroduced the notion of a preferred provider and incentives to consumers or employers to use those preferred providers. In the early days of managed care, health plans did not contract with all hospitals and clinics. Instead, they offered a limited panel of providers the promise of more patients in exchange for discounted prices. Soon the sales people took over and decided that very broad provider networks were needed in order to match the competition, resulting in the extensive network overlap that now exists.

In what is termed "tiering," some health plans have returned to the old notion of identifying certain hospitals as preferred. At this point, that preference is based on pricing, and the cynics are suggesting that this is an attempt by HMOs to regain some of the economic power they have lost to consolidated hospital systems. At the same time, health plans say that they want to reach a point where tiering of hospitals and clinics would be based on measures of quality. One measure could be progress of hospitals in implementing the initiatives of the Leapfrog Group. Leapfrog is a coalition of major purchasers that has tried to seize the opportunity created by the new attention being paid to hospital safety after the recent Institute of Medicine reports. These health plans are now trying to enlist employers to present benefit plans that strike a new balance—you can still use all the hospitals in the area, but you will have to pay out-of-pocket to use those hospitals that did not make it onto a preferred list.

4. HMO enrollment is flat in California and many other states. HMO enrollment in California increased by 4.7% in 2000 but not at all in the first half of 2001. Enrollment in commercial plans declined by 126,000 (0.7%) and the number of seniors in HMOs went down by 30,000 through June 2001. Fewer employers are choosing commercial HMO plans and fewer seniors are choosing Medicare+Choice HMO plans (including some who no longer have access to such a plan). The decline in the first six months of 2001 was offset by an increase of 160,000 in Medi-Cal HMO enrollment after years of decline and by the emergence of Healthy Families as a new line of business for HMOs. In 2000, HMO enrollment declined in five of the seven comparison states, which also saw a decrease in commercial and senior enrollment.

Many employers use other benefit plans, such as preferred provider organization (PPO) arrangements, although those account for a much smaller portion of the market in California than in many other states.

II. MARKET REVIEW: THE PLAYERS

Health plans, providers, purchasers of health care, and consumers all come together in the California health care marketplace. Yet the relationships are often not direct, and plans, purchasers, and providers all play roles as intermediaries between consumers and care providers. This section of the report provides an overview of the major organizations that finance, deliver, and organize health care for most Californians.

Health Plans

Managed care organizations administer the health benefits for most Californians. These organizations are organized in several different ways, the most prominent being health care service plans. That is the term used for health maintenance organizations (HMOs), which are regulated under the Knox-Keene Act, the primary law governing managed care plans. Oversight of HMOs is provided by the California Department of Managed Health Care (DMHC), which is under the Secretary for Business, Transportation and Housing. The state created this department in 1999. In 2000, the agency took over the regulatory responsibilities from the Department of Corporations. The governor appoints the Director of the Department of Managed Health Care. The 1999 law also created new boards to advise DMHC on issues such as quality and health plan solvency.

Under the Knox-Keene Act, the state also regulates health plans that provided a managed health benefit limited to a single service, such as dental care, vision, mental health, or chiropractic. For example, there were 26 licensed dental plans at the beginning of 2002. Some of them are owned by HMO companies as a way of offering additional products to their customers. This report does not analyze information about single-service plans.

For a brief period in the late 1990s, the state issued health plan licenses to provider organizations that wanted to take full capitation risk for enrollees, even for services contracted out to hospitals and other providers. (In general, providers can take risk only for those services that they provide.) These arrangements were called Knox-Keene licenses with waivers. Some of those plans went into bankruptcy in 1998 and 1999, resulting in significant disruptions for both patients and providers. At least one went out of business when it lost its anchor health plan customer.

Many employers use other benefit plans, such as preferred provider organization (PPO) arrangements, although those account for a much smaller portion of the market than in many other states. The most recent survey by the Kaiser Family Foundation and HRET found that 26% of California workers were enrolled in PPOs in 2001 compared to 48% nationally. Further, 48% of Californians were enrolled in HMOs, twice the national average of 23%. However, HMO enrollment was down from 53% two years earlier. (Kaiser Family Foundation and Health Research and Educational Trust, *California Employer Health Benefits Survey, 2001,* February 2002.) Blue Cross enrolls a large number of employer groups in a variety of PPO arrangements, as do national managed care companies like Aetna U.S. Healthcare and United HealthCare.

Indemnity health insurance, sometimes referred to as conventional plans, remains under the regulation of the state Department of Insurance, whose commissioner is elected. That agency went through a scandal a few years ago, and this was an opportunity for some state officials to revisit the question of whether the state should continue to divide health plan regulation between two agencies. The issues are presented in a report by Debra L. Roth and Deborah Reidy Kelch: *Making Sense of Managed Care Regulation in California* (November 2001). PPO plans in which access to provider networks is leased to self-funded employers or plan administrators are generally not subject to any significant state oversight in California or elsewhere.

HMOs that are organized as full-service plans are grouped into three categories in *Exhibit 1*. The table summarizes basic information about those health plans and includes a Web site address for many plans. The first category includes most of the health plans in the state and can best be described as all that don't belong in the other two categories. Most are investor-owned, although a few are organized as non-profits. There are 31 plans in that category. Most offer benefit plans for commercial groups, although a few are only serving Medi-Cal, Medicare or Healthy Families enrollees. Of that group, 18 HMOs do business only in California. Many of them are local in the sense that their service areas are limited to a few counties. Examples include Universal Care in southern California and Health Plan of the Redwoods in the Santa Rosa area. (In 2001, Universal announced plans to add Fresno to its service area. Health Plan of the Redwoods declared bankruptcy in 2002 and will end its operations.) The others are part of managed care companies operating in multiple states. Some of the largest national managed care companies are headquartered in California, including Blue

Exhibit 1

California HMOs at a Glance

Full Service Health Plans

Health Plan (website)	Headquarters	Owner/Manager/ Other Affiliation	Year Begun as an HMO	Enrollment in June 2001	2000 Profit (Loss)	Margin	Historical Notes
Aetna U. S. Healthcare of California *www.aetna.com*	San Ramon, CA	Aetna U. S. Healthcare, Hartford, CT and Blue Bell, PA	1981	879,507	(2,988,088)	-0.2%	Acquired Prudential Health Care in 1999
Blue Cross of California *www.bluecrossca.com*	Woodland Hills, CA	WellPoint Health Networks, Thousand Oaks, CA	1993	4,231,123	349,585,000	5.5%	Acquired membership of Omni Healthcare (Sacramento) in 1999
Blue Shield of California *www.blueshieldca.com*	San Francisco, CA	California Physicians' Service	1978	2,058,506	(4,106,000)	-0.1%	Organized as California Physicians Service; acquired CareAmerica in 1998
Care 1st Health Plan	Alhambra, CA		1995	240,172	958,148	1.3%	
Chinese Community Health Plan	San Francisco, CA		1987	8,154	194,526	1.1%	
CIGNA HealthCare of California *www.cigna.com*	Glendale, CA	CIGNA Healthcare, Inc., Hartford, CT	1978	653,854	17,708,111	1.5%	Formerly Ross Loos Health Plan and Equicor
Community Health Group *www.chgsd.com*	Chula Vista, CA		1985	83,161	3,259,792	4.3%	
Community Health Plan	Los Angeles, CA	Los Angeles County Department of Health Services	1985	128,882	2,685,376	3.5%	
Health Net *www.Health.net*	Woodland Hills, CA	Health Net (formerly Foundation Health Systems)	1979	2,148,886	156,667,148	3.9%	Merged with Foundation Health of California
Health Plan of the Redwoods *www.hpr.org*	Santa Rosa, CA		1980	75,874	(4,474,417)	-2.5%	Also known as Keycare. Entered bankruptcy in 2002 and expects to liquidate by end of year
Inter Valley Health Plan *www.ivhp.com*	Pomona, CA		1979	69,585	1,107,860	0.6%	
Kaiser Foundation Health Plan, Inc. *www.ca.kaiserpermanente.org*	Oakland, CA		1977*	6,138,684	162,933,000	1.2%	
Lifeguard, Inc. *www.lifeguard.com*	San Jose, CA		1978	240,490	(7,357,753)	-1.7%	
Maxicare of California *www.maxicare.com*	Los Angeles, CA		1977	257,408	(7,256,155)	-1.9%	Department of Managed Health Care took over plan in May 2001 and liquidated by end of year
Molina Healthcare of California *www.molinahealthcare.com*	Long Beach, CA	Molina Healthcare, Inc.	1994	224,187	13,845,616	6.6%	
National Med, Inc. *www.nationalhmo.com*	Modesto, CA	Tenet Healthcare Corporation	1985	35,964	(5,209,238)	-3.9%	Ended operation in 2002
On Lok Senior Health Plan *www.onlok.org*	San Francisco, CA		1999*	875	4,946,366	10.9%	
One Health Plan *www.onehealthplan.com*	San Jose, CA	Great- West Life Assurance Co., Englewood, CO	1996	82,051	18,902,392	12.5%	
PacifiCare of California *www.pacificare.com*	Cypress, CA	PacifiCare Health Systems	1975	2,198,442	150,943,652	2.3%	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	20,778	27,804,657	4.5%	Aetna U.S. Healthcare acquired Prudential Health in 1999

Exhibit 1

California HMOs at a Glance , continued

Full Service Health Plans

Health Plan (website)	Headquarters	Owner/Manager/ Other Affiliation	Year Begun as an HMO	Enrollment in June 2001	2000 Profit (Loss)	Margin	Historical Notes
SCAN Health Plan *www.scanhealthplan.com*	Long Beach, CA		1984	46,676	5,382,193	1.4%	
Sharp Health Plan *www.sharp.com*	San Diego, CA		1992	97,670	(375,568)	-0.4%	
Sistemas Medicos Nacionales, S.A. de C.V.	San Diego, CA	Simnsa Health Care, Tijuana, Mexico	2000	9,069	214,593	12.1%	
Tower Health Management Organization *www.towerhealth.com*	Long Beach, CA	Cohen Medical Group, Long Beach	1995	0	5,753,159	6.1%	Department of Managed Health Care took over plan in September 2001 and liquidated.
UCSD Health Plan	San Diego, CA	Regents of the University of California	1997	12,053	(505,712)	-1.5%	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	99,945	(7,985,000)	-3.8%	State regulators took control in August 2001
United HealthCare of California *www.uhc.com*	Long Beach, CA	United HealthGroup, Minnetonka, MN	1986	0			Formerly MetraHealth HMO, acquired by United HealthCare in 1996. Surrendered HMO license in October 2000 and transitioned members to Blue Shield
Universal Care *www.universalcare.com*	Signal Hill, CA	Howard E. Davis	1985	317,211	2,242,920	0.7%	Includes enrollees absorbed from Great American Health Plan and Health Max America/HMO California
Valley Health Plan	San Jose, CA	Santa Clara County	1985	46,735	1,486,573	2.7%	Formed to serve Santa Clara County employees and retirees
Western Health Advantage *www.westernhealth.com*	Sacramento, CA	Sponsored by Mercy Healthcare Sacramento, NorthBay Healthcare System and the University of California Davis Health System	1997	51,472	(68,732)	-0.1%	

County Organized Health Systems and Local Initiative Plans

Health Plan (website)	Headquarters	Owner/Manager/ Other Affiliation	Year Begun as an HMO	Enrollment in June 2001	2000 Profit (Loss)	Margin	Historical Notes
Alameda Alliance for Health *www.alamedaalliance.com*	Alameda, CA	Alameda County	1995	74,909	13,949,940	13.9%	
CalOptima *www.caloptima.org*	Orange, CA	Orange County Organized Health System	2000	190,110	(1,641,839)	-0.5%	Formal name is Orange Prevention and Treatment Integrated
Central Coast Alliance for Health *www.ccah-alliance.org*	Santa Cruz, CA	Santa Cruz-Monterey Managed Medical Commission	2000	71,651	6,256,625	4.3%	
Contra Costa Health Plan *www.co.contra-costa.ca.us/depart/hsd/cchealthPages/insurance.html#cchp*	Martinez, CA	Contra Costa County Health Services Department	1973	55,574	234,086	0.3%	
Health Plan of San Mateo *www.hpsm.org*	S. San Francisco, CA	San Mateo Health Commission	1998	39,640	(6,472,497)	-7.5%	

Exhibit 1

California HMOs at a Glance , continued

Health Plan (website)	Headquarters	Owner/Manager/ Other Affiliation	Year Begun as an HMO	Enrollment in June 2001	2000 Profit (Loss)	Margin	Historical Notes
Inland Empire Health Plan *www.iehp.org*	San Bernardino, CA	Joint powers agreement agency created by San Bernardino and Riverside Counties	1996	207,819	2,389,701	1.2%	
Kern Health Systems	Bakersfield, CA		1996	62,086	9,562,096	15.5%	
L.A. Care (Local Initiative Health Authority) *www.lacare.org*	Los Angeles, CA	Local Initiative Health Authority for Los Angeles County	1997	710,747	7,429,571	1.1%	
Partnership Health Plan of California *www.partnershiphp.org*	Suisun City, CA	Solano-Napa Commission on Medical Care		66,000			Also serves Medi-Cal recipients in Yolo County
San Francisco Health Plan *www.sfhp.com*	San Francisco, CA	San Francisco Health Authority	1996	34,146	436,353	1.1%	
San Joaquin County Health (Health Plan of San Joaquin) *www.hpsj.com*	Stockton, CA	San Joaquin County Health Commission	1996	55,956	7,800,044	11.9%	
Santa Barbara Health Initiative *www.sbrha.org*	Goleta, CA	Santa Barbara County Special Healthcare Authority	2000	1,419	345,846	66.2%	
Santa Clara Family Health Plan *www.scfhp.com*	San Jose, CA	Santa Clara County Health Authority	1996	57,613	539,195	3.1%	
Ventura County Health Care Plan *www.vchca.org/hcp/index.htm*	Ventura, CA	Ventura County	1996	9,876	22,043	0.3%	

Limited License Health Plans

Health Plan (website)	Headquarters	Owner/Manager/ Other Affiliation	Year Begun as an HMO	Enrollment in June 2001	2000 Profit (Loss)	Margin	Historical Notes
Cedars-Sinai Provider Plan, LLC	Los Angeles, CA	Cedars-Sinai Medical Center, Los Angeles	1998	636	269,850	19.1%	
Concentrated Care, Inc.	Salinas, CA	Salinas Valley Memorial Healthcare System	1997	0	1,095,245	25.0%	No longer in business
Heritage Provider Network	Reseda, CA		1997	165,865	184,281	0.1%	
PrimeCare Medical Network	Ontario, CA	North American Medical Management, California	1998	241,714	1,291,025	0.6%	
Priority Plus of California	Fresno, CA		1985	0	1,291,025	0.6%	Formerly Central Valley Health Plan
ProMed Health Care Administrators	Upland, CA	ProMed Health Services Company	1999	11,394	(3,039,902)	-4.6%	
Scripps Clinic Health Plan Services	La Jolla, CA	Scripps Health	1999	175,418	583,509	0.3%	

*On Lok Senior Health Services commenced business in 1971, Kaiser in 1955
Source: Author's analysis of HMO annual statements, supplemented by Department of Managed Health Care, "Public Alpha Report,' January 2002; Department of Managed Health Care, "Health Plan Financial Information," June 2001.
Full service plans terminated in past two years: Great American Health Plan (San Diego), Greater Pacific (San Francisco), and HealthMax America.
Knox-Keene plans with waivers terminated in past two years: California Pacific Medical Group (San Francisco), FPA Medical Management (San Diego), MedPartners Provider Network (Long Beach), Monarch Plan, St. Joseph's Provider Network, THIPA Management Consultants (Torrance).

HMO Market Concentration

At the end of 2000, what percentage of HMO enrollees in each state was in the four largest HMOs?

California	68.9%
Colorado	68.3%
Florida	63.6%
Illinois	67.5%
Michigan	59.6%
Minnesota	95.4%
Ohio	60.2%
Texas	59.4%

Cross (part of WellPoint Health Systems), Health Net, Kaiser Permanente, and PacifiCare.

The second category of health plans includes those operated by county governments for Medi-Cal. This has been a growth area as counties, sometimes joining with their neighbors, have formed health plans and come under the Knox-Keen Act. There are now 14 licensed Medi-Cal HMOs that are sponsored by county agencies. Additional information about the different models of Medi-Cal managed care is presented in the next section of the report.

The third group of health plans in Exhibit 1 is made up of those provider organizations that have received a Knox-Keene license with waivers. While some of those are small or even inactive, three large groups, Heritage Provider Network, PrimeCare Medical Network and Scripps Health Plan Services, operate in southern California. Several provider plans gave up their licenses in 1999, including California Pacific Medical Group, Monarch Plan, and THIPA Management Consultants.

In California and other states, many new HMOs were formed in the mid-1990s. That trend has since reversed, and the total number of health plans has declined in the past two years. Only one new commercial plan has been licensed in the past two years, along with a few of the county Medi-Cal organizations. Several commercial HMOs have gone out of business in California, including three smaller plans, Greater Pacific, Great American, HealthMax America, and one larger HMO, United HealthCare. Blue Shield absorbed some of the United HealthCare members, and Universal Care absorbed some enrollees from Great American and HealthMax America.

United HealthCare has generally pursued a strategy of focusing on PPO plans and administration of benefit plans for large, self-funded employers doing business in several states. Those plans face less state regulation and do not involve taking risk. United HealthCare gave up its HMO licenses in California and three other western states. Some other national companies, whose stock value has been depressed sharply, including PacifiCare and Humana, have announced that they would pursue similar PPO strategies as part of their recovery plans.

In 2001, three California HMOs suffered severe financial problems and went into receivership under DMHC: Maxicare of California, Tower Health, and WATTSHealth. Maxicare and Tower Health have since been liquidated with their Medi-Cal enrollees reassigned to other health plans in Los Angeles and Sacramento. All three were closely involved with Medi-Cal plans, and questions have been raised in California and in other states about effective oversight of Medicaid HMOs. In Ohio, for example, four Medicaid HMOs became insolvent in a two-year period, leaving state insurance regulators and Medicaid officials point fingers at each other about which one should have paid more attention to the financial returns.

In other states, hospital systems created many of the startup HMOs during the 1990s. That was not the case in California where only a few HMOs, including Western Health Advantage in Sacramento, were formed by hospitals. In those other states, many of the hospitals have since decided that they did not want to be in the HMO business and have sold or closed their HMOs. At one time, it was thought that many hospitals might form provider-sponsored health plans to contract with the federal government for Medicare. In the end, some hospitals looked at that opportunity but were put off by the regulatory requirements and the very real possibility of losing a lot of the capital needed.

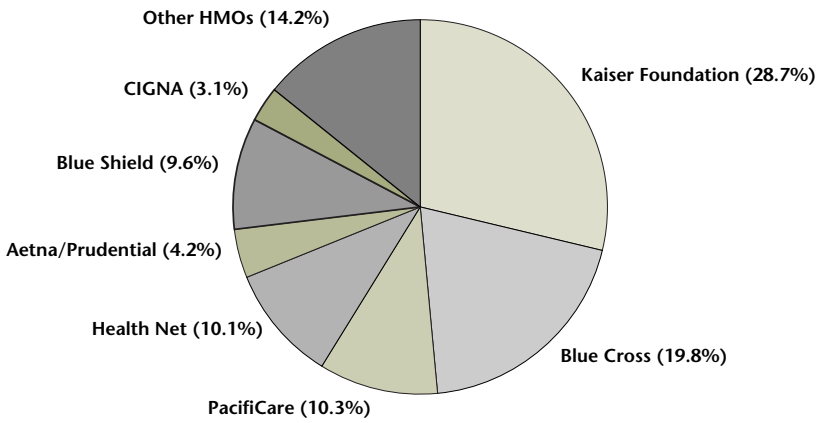
As of June 2001, 21.4 million Californians, or 63% of the population, were enrolled in an insured HMO plan through one of these health plans. (This analysis generally does not include enrollment in other kinds of managed care arrangements, such as PPOs. Note that many of the HMOs discussed here are also administering benefit plans with PPO networks.)

Exhibit 2 shows the market share of California HMOs as of June 2001. Kaiser Permanente remains the largest, with 28.7% of enrollees. Blue Cross is second largest, with 19.8%. Three other health plans (PacifiCare, Health Net, and Blue Shield) each have about 10% of the market. At the end of 2000, Blue Shield absorbed some of the commercial enrollees that were in United HealthCare HMO plans. The four largest HMOs have 68.9% of the HMO market. The sidebar on this page compares concentration in HMOs in California and seven other states. California is in the middle, and although other states have become more concentrated, California has not in the past two years.

WellPoint Health Networks, the parent of Blue Cross of California, has grown its California operation and has continued its national expansion. In the past two years, it acquired the Rush-Prudential HMO in Chicago, which is now operated as UniCare Health Plans of the Midwest, and closed on acquisitions of Blue Cross Blue Shield of Missouri (RightCHOICE) and Blue Cross Blue Shield of Georgia. In 2002, it bought the Methodist Care HMO in Houston, one of those provider-sponsored health plans that decided to get out of the HMO business. Methodist Care had already sold its Medicaid HMO business to AmeriGroup, an

Exhibit 2

Market Share of California HMOs, June 2001



Hospital systems (meaning more tightly integrated) or networks (loosely affiliated) vary widely in administrative structure, the extent of joint contracting and whether or not they seek to project an organizational "brand" identity for all affiliated hospitals.

investor-owned company that has expanded through acquisitions in several states, including Texas and Washington, D.C. WellPoint is also trying to buy CareFirst, the Blue Cross plan for Maryland, Washington, D.C., and Delaware. However, elected officials and some advocacy groups are challenging that plan's conversion to for-profit status and its sale. Anthem, a competing Blue Cross Blue Shield plan based in Indianapolis, has also made acquisitions in New England, Colorado and most recently the Trigon Blue Cross Blue Shield plan in Virginia. Anthem had a very successful initial public offering of its stock in 2001 and that capital has helped to fuel its expansion efforts.

Kaiser Permanente, based in Oakland, has gone in the opposite direction and has cut back on its national operations. Outside of California it still has large operations in Colorado, the Washington, D.C. area, Cleveland and Atlanta. It sold its plans in Texas, northeastern New York, North Carolina, and Kansas City.

Hospital Systems

The days of the independent community hospital have largely passed. Most of the hospitals in California are organized into systems. In some instances, the hospitals are tightly integrated, with a single governing board and all hospitals under single ownership and administration. At the other end are loosely affiliated networks of hospitals that align for managed care contracting or certain administrative services. Hospital systems (meaning more tightly integrated) or networks (loosely affiliated) vary widely in administrative structure, the extent of joint contracting and whether or not they seek to project an organizational "brand" identity for all affiliated hospitals. Some have very close ties to affiliated physician practices and may provide capital and administrative services to clinics.

In either case, system building is a key way in which hospitals have responded to the growing economic power held by health plans and tried to match size with size. As will be discussed in the third and fourth sections of the report, hospital systems have succeeded in great measure in negotiating improved payment rates and in getting out of money-losing contracts.

Exhibit 3 provides an overview of the largest hospital systems. The analysis here, and in the fourth section of the report, is based on data collected by the state Office of Statewide Health Planning and Development (OSHPD). The data used were reported by the hospitals for their fiscal years ending between January and December of 2000. This analysis focuses on acute care hospitals and generally does not include specialty hospitals that are limited to rehabilitation, long-term care or mental health, those operated by the state for people with mental illness or developmental disabilities or those operated by the Department of Veterans Affairs or other federal agencies.

The analysis here groups the hospitals based on their system affiliation during 2000. System affiliations are not forever. In the past year, for example, the Carondolet system sold two hospitals to Tenet, and seven California hospitals that were part of Catholic Healthcare West (CHW) left that system to form the Daughters of Charity Health System.

Exhibit 3

Largest California Hospital Systems at a Glance, 2000

System / Locations	Staffed Beds	Inpatient Days	Inpatient Occupancy	Outpatient Visits	Net Patient Revenue	Net Income
Adventist	**1,902**	**491,873**	**57.0%**	**1,643,140**	**808,716,699**	**(1,504,196)**
www.ah-sc.com 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).						
Catholic Healthcare West	**8,819**	**2,099,012**	**58.6%**	**4,126,860**	**3,481,577,486**	**75,073,078**
www.chwhealth.com 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. VInc.ent Medical Center (Los Angeles) and Woodland Memorial Hospital.						
HCA – The Healthcare Company	**1,173**	**334,226**	**57.5%**	**459,927**	**669,486,824**	**(22,920,573)**
www.hcahealthcare.com 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)						
Kaiser Foundation	**5,875**	**1,336,494**	**62.2%**	**406,937**	**3,609,888,013**	**366,700,664**
www.kaiserpermanente.org/locations/california 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).						
St. Joseph	**894**	**282,323**	**61.4%**	**405,047**	**560,882,339**	**(15,377,327)**
www.stjhs.org 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).						
Scripps	**1,514**	**412,103**	**67.8%**	**901,162**	**593,456,575**	**23,670,940**
www.scrippshealth.org 6 - Green Hospital of Scripps Clinic (La Jolla), Scripps Hospital - East County (El Cajon, now closed), Scripps Memorial Hospital - Chula Vista, Scripps Memorial Hospital - Encinitas, Scripps Memorial Hospital - La Jolla and Scripps Mercy Hospital (San Diego).						
Sharp	**1,877**	**439,988**	**63.2%**	**1,103,531**	**1,001,043,524**	**45,785,740**
www.sharp.com 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).						
Sutter	**4,248**	**1,126,693**	**65.5%**	**3,557,406**	**2,411,159,282**	**104,516,997**
www.sutterhealth.org 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.						
Tenet	**7,092**	**1,500,333**	**57.7%**	**2,672,669**	**2,782,438,086**	**328,196,563**
www.tenethealth.com 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						
University of California	**2,821**	**711,422**	**69.9%**	**4,290,269**	**2,567,418,123**	**229,124,048**
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, now closed), 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 annual financial report worksheet data prepared by office of Statewide Health Policy and Development. Data are for fiscal years ending between January 1 and December 30, 2000. System affiliations reflect arrangements in 2000.

Based on the 2000 data, CHW is the largest hospital system, with 47 hospitals in the state and 2.1 million inpatient days. A comparison based on other measures, such as patient revenues or outpatient visits might yield a different ranking. CHW consists of hospital groups owned by different Catholic orders that have come together under the CHW banner. While CHW hospitals and some of the other large systems are owned by religious organizations, the second largest hospital group in the state is Tenet Healthcare a for-profit hospital chain, with 44 hospitals and 1.5 million inpatient days in 2000. Tenet is based in southern California, and has hospitals in about 18 states. It has acquired prominent academic health centers in places like Philadelphia and St. Louis, though most of its California hospitals would probably be considered community hospitals.

The other major investor-owned hospital in the state is HCA: The Healthcare Company (formerly Columbia/HCA). While Tenet has continued to expand, HCA has reduced the size of its networks in several states. It sold some of its facilities in the past few years, and went from 14 California hospitals (plus outpatient centers) two years ago and is down to eight hospitals in 2002.

The Kaiser Foundation owns a network of 28 hospitals across California. The Kaiser system of clinics and hospitals is largely self-contained, although it does use some other hospitals and physicians in the state for certain specialty services or where it needs additional geographic access. For a brief period in the 1990s, Kaiser made plans to cut back on its own hospital facilities while making wider use of contracted hospitals. That strategy lasted only a short time and was very costly to Kaiser. Not only has it reverted to its historic strategy, but it has also announced plans to make major investments in its current facilities to add capacity and to comply with the state's standards for seismic construction of hospitals.

The Kaiser hospitals reported a net profit of $366 million in 2000, a major improvement from 1999 when they reported losses of more than $216 million. Kaiser does not provide financial details on individual hospitals and just reports the results for all hospitals in its two California regions. Three of the nine systems in the table reported losing money on their California hospitals in 2000. On the other hand, Tenet reported a profit of $328 million in 2000, similar to its 1999 results. Catholic Healthcare West hospitals had profits of $75 million in 2000, although some of the more profitable hospitals have since left CHW.

We have grouped the seven University of California medical centers together, although they do not contract together for managed care business and are budgeted and operated independently. When combined, the hospitals reported 4.2 million outpatient visits in 2000, more than any of the other hospital networks. The University of California San Francisco Medical Center alone reported 1.7 million outpatient visits.

Physician Organizations

HMOs in California organize their physician networks using two basic models as well as hybrids of the two. First, there is the Kaiser Permanente model where the HMO contracts with the Permanente Medical Group (actually there are two separate groups) and those physicians provide almost all medical services to Kaiser enrollees. The Permanente Medical Groups do not contract to serve enrollees in other HMOs. The health plans that eventually became CIGNA of California began as staff models as well. Molina Healthcare operates clinics in southern California and Sacramento, but also contracts with other physicians.

The second model involves HMOs contracting with medical groups or independent practice associations (IPAs) in what is known as the California delegated model. The HMO contracts with a series of groups and IPAs and agrees to pay fixed (capitated) rates for every enrollee who selects that group to be his primary care clinic. (More discussion of capitation arrangements follows in this section and the next one.) The HMO delegates significant responsibility to the medical group for credentialing, claims payment and medical management. All the other major health plans in the state, including Blue Cross, Blue Shield, PacifiCare and Health Net, use the delegated model to a greater or less extent. Blue Cross uses much less capitation than the others, but still contracts with a broad network of providers.

Most medium and large (200 or more employees) California employers offer two or more health plan options to their employees: Kaiser Permanente and one of the other health plans that offer broad access to non-Kaiser doctors and hospitals. That way, employees have access to almost all of the doctors that they could want to use. Here are the different organizations that physicians in California use:

Medical Group. The integrated medical group is a traditional group practice structure. While many established groups in California include primary care physicians and numerous specialists, most new group practices are built around a single specialty. For a variety of reasons, many having to do with money, few multi-specialty groups have been minted in recent years. Physicians are either

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 **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.

· 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 financial stability of physician organizations in California has been a matter of serious concern in recent years.

employees or partners of the group and may practice at one or more sites. Physicians belong to only one medical group, and that entity handles all managed care contracting on their behalf. Some medical groups include an additional "wrap-around" IPA panel to extend their geographic reach. Group practices are common in southern California. Medical group examples include Healthcare Partners in Los Angeles; Camino Medical Group, which is now affiliated with the Palo Alto Medical Foundation; San Jose Medical Group; Bright Medical Associates in the Los Angeles area; and Beaver Medical Group in the Inland Empire of San Bernardino and Riverside Counties.

Independent Practice Association (IPA). An IPA is an administrative vehicle for independent physicians or clinics that practice in their own private offices in the community. These physicians contract with the IPA, and the IPA, acting on behalf of the physicians, signs network contracts with one or more health plans. Physicians typically contract with more than one IPA; and each IPA may account for only a small percentage of their patients. IPAs are common in northern California. Prominent California IPAs include Brown and Toland Medical Group in San Francisco; Alta Bates Medical Group in Oakland; Affinity Medical Group, Inc (a "super"-IPA in the East Bay that includes three or four smaller IPAs); and Hill Physicians Medical Group, Inc. in the East Bay area. In many instances, the IPA contracts with a management services organization.

Kaiser Permanente. The Kaiser Permanente health plans in the state used to operate separately in Southern California and Northern California, but 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.

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 Mt. Diablo Health Network Foundation in the East Bay; Palo Alto Medical Foundation in the South Bay; Scripps Clinic in San Diego and Adventist Health Southern California Medical Foundation.

In addition, physician groups can contract with **Management Service Organizations (MSOs)**, organizations that provide administrative services to physician groups including billing, collection, and administrative support. Some MSOs offer quality management, utilization management, provider relations, member services, and claims processing. It may or may not handle health plan contracting. Some MSOs have purchased the physician's practice. In all other cases, the MSO administers the IPA or medical group. Management service organizations include Primed Management Consulting, Inc. (the management company for the Hill Physicians IPA) and Brown and Toland Physician Services Organization.

As noted earlier, some physician groups have elected to seek **Knox-Keene Limited Licenses** so that they can negotiate full-risk capitation contracts with health plans. As a result of failures of some of those groups, the Department of Corporation stopped taking new requests for these limited license plans in 1999. As of April 2002, six limited license plans still remained: Cedars-Sinai Provider Plan (Los Angeles); Concentrated Care (Salinas); Heritage Provider Network Inc. (Reseda); PrimeCare Medical (Ontario); ProMed Health (Upland) and Scripps Clinic Health Plan Services (San Diego).

The fourth section of this report presents overview information about the largest physician organizations in each of the six regions. By different counts, there are between 250 and 350 organized physician groups in California. Although the number of groups is large, many are very small. Data from the Cattaneo & Stroud, a consulting firm, show that 10 organizations plus the two Permanente groups have contracts to provide care for almost 80% of managed care enrollees.

The financial stability of physician organizations in California has been a matter of serious concern in recent years. In the past four years, physician groups have failed, among them some very well known and well-established groups. In some cases, the significant disruption in patient-physician ties resulted and, in at least one case, patient records were misplaced. The state Legislature passed several managed care bills in 1999, including new laws

to address the financial solvency of physician groups. In creating the new Department of Managed Health Care, the Legislature directed that agency to play a role in financial oversight of provider groups. The Department began to implement the provider solvency requirements of SB260, one of the bills enacted in 1999. In an administrative rulemaking process, the Department adopted reporting requirements to address four criteria spelled out in the law:

- maintaining positive working capital
- maintaining positive tangible net equity
- calculated and documented IBNR (Incurred But Not Reported claims)
- timely claims payment

Some analysts have questioned whether the measures selected (which were outlined in the legislation) are the most meaningful criteria for evaluating whether a physician group is close to failure. In a recent report, *Cash Matters: Results From a Survey of California Physician Groups,* Christopher C. Ohman of CapMetrics, LLC and Paul J. Gertler, Ph.D., of University of California at Berkeley suggested a stronger focus on liquidity in the measures. That survey of provider groups found that about 13% of medical groups would meet the four solvency standards but still face financial problems because they lack adequate cash.

Some other measures suggested include whether the physician group actually submits the required financial reports at all. One provider group executive suggested that the most telling measure would be whether a group pays its bills on time. Perhaps the best evidence would be: does the group pay its Sparklett's bill on time for weekly deliveries of water cooler bottles?

DMHC collected information from about 250 physician groups of various sizes based on the first quarter of 2001. In October 2001, it posted summary information on its Web site of the results of the first round. Of that group, seven failed to meet the first hurdle by not reporting at all. The rest completed their reports, but the results varied widely. Just over 100 groups of various sizes reported that they complied with all four measures and about 190 of them complied with the timely claims payment criterion. Some of the most widely recognized groups in the state did not comply with two or more of the criteria.

DMHC wanted to disclose some of the underlying details that were reported by the physician groups. It contended that consumers should be aware of the financial condition of the clinics they use and that a simple yes or no did not provide adequate insight on the financial status of the physician groups. The California Medical Association sued DMHC, claiming that the statute did not authorize DMHC to disclose details because that could undermine the position of the physicians groups in negotiating contracts with managed care companies. In the CMA's view, the purpose of the new law was to strengthen the ability of physician groups to negotiate with health plans. In the language of the statute, groups should not be required to disclose information that would "adversely affect the integrity of the contract negotiation process" between health plans and the medical groups. The trial court sided generally with CMA, by barring DMHC from implementing portions of the reporting rules. The Department then pulled the information off of its web site.

Health Plan-Provider Relations

Two key characteristics of managed care in California have been the use of capitation arrangements to pay providers for care accompanied by the delegation of significant responsibilities to the medical group. Physicians organize themselves into the different organizations described above for a variety of reasons: to contract with managed care companies, to expand their geographic access, to improve administrative system, and to initiative quality improvement plans, among others. By accepting capitation, they agree to provide comprehensive medical services, but usually not including inpatient care. In the past two years, many health plans and medical groups have changed their arrangements so that the physicians do not accept full risk for pharmaceutical expenses.

The health care dollar is divided into a series of pools, one for professional services and another one for institutional care, including inpatient hospital care and skilled nursing facility stays. Even though physicians may not be directly at risk for use of inpatient services, they have historically had a strong interest in trying to hold down inpatient hospital admissions and lengths of stay. If they did, they would share in the surplus that remained in the institutional care pool. In the past, a physician organization might break even on its professional capitation pool, but benefit from a large surplus in the institutional care pool.

However, as major hospital systems have exited capitation arrangements, there is much less opportunity for physicians to benefit from surpluses in the institutional care pool. Since hospitals have switched to modified fee-for-service payment system and gained important increases in payment rates, there simply is much less money that might remain in the institutional pool. Even if the physicians practice conservatively, they won't gain as much as in the

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.

Use of Capitation

What percentage of provider payment do HMO make through capitation arrangements?

California	59.7%
Colorado	28.6%
Illinois	33.0%
Michigan	46.1%
Minnesota	35.7%
Ohio	18.7%
Texas	29.0%

past. In the past, hospitals that shared in the institutional care pool surplus had an important incentive to partner with the physicians. That is much less true now, and hospitals and physicians are not responding to the same incentives.

The growth of the delegated/capitated model was fueled partly by the rapid expansion of Medicare HMO plans. As enrollment grew in senior plans, so did the use of capitation. In the past two years, enrollment in senior plans stopped growing and has now begun to decline. In some instances, it was the decision by hospitals and sometimes physicians to no longer accept risk for seniors that precipitated the decision by HMOs to cut back on service areas or drop out altogether. The financial model for senior plans was based on sending risk to providers. (Kaiser Permanente has about 10% of its enrollment in senior plans and is an important exception to this generalization.) Providers realized how much they could lose as medical costs increased by 10% and payments from the federal government through the HMO were increased by only 2%. They concluded that they could not afford to continue losing money on those contracts. They terminated their Medicare+Choice contracts, and HMOs realized that they would not make money if they had to assume the risk themselves. Or, they saw that they would not have an adequate provider network to continue in Medicare. (Analysis of the use of capitation by California HMOs appears in *Exhibit 22* and the accompanying text in the next section.)

The wide use of this model (and in a few cases the decision not to use the model) has had important consequences for both health plans and providers. For example, many of the largest health plans have delegated significant administrative responsibilities to physician groups. This may include provider credentialing, medical management/utilization review and claims administration. In recent years, when large physician groups failed, the health plans had to scramble to reorganize a care delivery network and to assume temporary responsibility for the administrative tasks that had been delegated out to the provider groups. If the infrastructure to perform those tasks was not already there, then the situation for the health plan became even more difficult. Because Blue Cross did not make extensive use of capitation (and did not focus on Medicare business), it developed the in-house infrastructure to design and administer different benefit arrangements to various market segments and to use tools at the health plan level to manage utilization.

It can be hard for health plans with delegated/capitated provider networks to respond to the growing interest for comparative data on health plans. To prepare the Health Plan and Employer Data Information Set (HEDIS) reports (described in more detail in the next section), health plans rely on encounter data, often developed through claims systems. If the provider groups are paying claims and maintaining the encounter data, they may not want to share that information with the health plans. (Depending on the circumstances, concerns about who is forthcoming with data can go both ways between providers and health plans.) California health plans have contended that their results on HEDIS and similar measures are adversely affected by the challenges of getting the data from provider groups.

Two years ago, several interviewees told the author that they expected some of the large companies to move away from the delegated model and to contract directly with physicians rather than going through delegated IPAs. For the most part, that has not happened. Aetna U.S. Healthcare was mentioned as an example, since it operated with the necessary infrastructure in its other state markets. That has not changed, and Aetna U.S. Healthcare continued to make extensive use of capitation in 2000. Instead of making this dramatic change, health plans and providers alike have agreed to incremental changes, reducing the amount of risk borne by physicians, but still maintaining most aspects of the delegated model. In addition, the improved stability of physicians groups has reduced the need to change the current system. For the most part, the largest provider networks are still advocates for the delegated model. They believe that these incremental changes and increases in payment rates have improved their position, although none would say that they were satisfied by the new payment rates.

Having said this, HMOs such as PacifiCare have devised strategies intended to diversify their product offerings and book of business. To the extent that enrollees migrate from HMO products to PPO plans or from Medicare HMOs to Medicare supplement policies, that will reduce the volume of care delivered through capitated arrangements.

Purchasers

Intermediaries play an important role in the California health care marketplace. Purchasers, whether private employers or government agencies, are intermediaries, making choices of health plans and of benefit design. They play an important though not always visible role in determining how health care is delivered and financed. Just as providers have sought to gain size to match the size of health plans, purchasers have pursued similar strategies through a variety of purchasing coali-

tions. In this section, updated information about the two most prominent purchasing coalitions in the state is presented: The California Public Employees Retirement System (CalPERS) and the Pacific Business Group on Health (PBGH). The next section of the report discusses some of the state's initiatives under the Medi-Cal program.

Both CalPERS and PBGH have used their considerable purchasing power to hold down premium increases in the past 10 years. Some see them as bellwether purchasers, expecting that the results of their negotiations would be reflected, for better or for worse, for other purchasers. Both have generally been successfully in containing premium increases, but have also experienced years with above average increases in which they may have caught up with the general market trend. Both groups have talked about their desire to focus on quality measures in buying health care and in providing information to employees to make choices of health plans and of providers.

California Public Employee Retirement System. California CalPERS arranges benefit plans for state employees and the employees of about 1,300 local government units. In 2002, it is offering seven HMO plans and two self-funded PPO plans, with administrative services provided by Blue Cross. CalPERS also administers association plans for about 40,000 law enforcement personnel.

Exhibit 4 shows enrollment in the CalPERS health plans at four points in time: 1996, 2000, 2001 and February 2002. In 1996, CalPERS contracted with 12 different HMOs plus the two PPOs. Prior to that, it contracted with even more HMOs. CalPERS has since cut back on the number of HMOs offered, partly because some have gone out of business, but mostly to gain better pricing by driving market share to a smaller number of plans.

For 2003, it received proposals from the HMOs with increases of as much as 41%. It decided to further cut back on the HMOs, offering two with coverage in most counties, Kaiser Permanente and Blue Shield. It will cut two of the state's largest HMOs, PacifiCare and Health Net. It originally planned to contract with three regional plans, such as Western Health Advantage in the Sacramento area. Even with all these changes, it will still face premium increases averaging 25% in 2003. In addition, those plans have hit several

CalPERS has since cut back on the number of HMOs offered, partly because some have gone out of business, but mostly to gain better pricing by driving market share to a smaller number of plans.

Exhibit 4

Enrollment in CalPERS Health Plan Options, 1996-2000: Active and Retiree Enrollment in Basic Plans

HMOs	1996	1996 Share	2000	2001	February 2002	Change 2001-2002	2002 Share
Kaiser Permanente	294,460	33.4%	324,649	347,866	358,475	3.0%	32.9%
Health Net	201,886	22.9%	215,544	223,344	170,149	-23.8%	15.6%
PacifiCare	103,014	11.7%	107,164	130,936	177,966	35.9%	16.3%
Blue Shield HMO	31,267	3.5%	44,766	59,478	94,823	59.4%	8.7%
Health Plan of the Redwoods	7,738	0.9%	7,255	7,322	9,511	29.9%	0.9%
Universal Care		0.0%	1,327	5,822	18,772	222.4%	1.7%
Western Health Advantage					4,584		0.4%
Aetna U.S. Healthcare	23,609	2.7%	31,124	36,003			
CIGNA	35,023	4.0%	27,709	29,232			
Lifeguard	16,699	1.9%	27,937	28,514			
Maxicare	8,980	1.0%	8,606	9,546			
National	2,696	0.3%					
Omni	14,609	1.7%					
PPOs and Association Plans							
PERS Care	63,359	7.2%	51,942	39,180	36,397	-7.1%	3.3%
PERS Choice	36,179	4.1%	105,544	127,063	177,784	39.9%	16.3%
California Association of Highway Patrolman	15,240	1.7%	18,638	20,401	20,996	2.9%	1.9%
California Correction and Peace officers Association	17,933	2.0%	9,695	9,426	9,424	0.0%	0.9%
Peace Officers Retirement Association of California	4,630	0.5%	5,828	8,339	10,163	21.9%	0.9%
California Professional Firefighters' Association	4,119	0.5%					
Other	625	0.1%	475				
	882,066	100.0%	988,203	1,082,472	1,089,044	0.6%	100.0%
Association Plans	41,922	4.8%	34,161	38,166	40,583	6.3%	3.7%
HMOs	739,981	83.9%	796,081	878,063	834,280	-5.0%	76.6%
PPOs	99,538	11.3%	157,486	166,243	214,181	28.8%	19.7%

Source: Author's analysis of CalPERS enrollment reports.

Enrollment in CalPERS PPOs grew for several reasons: favorable pricing before 2002, enrollee preference for PPOs and the fact that there were no HMO options available in some counties. However, CalPERS suffered large losses on those self-funded plans.

roadblocks. One of the three, Health Plan of the Redwoods, has gone bankrupt. A second plan, Universal Care, has not met state standards for reserves, which is a requirement for serving CalPERS enrollees. And doctors for Western Health Advantage were not interested in taking many new CalPERS enrollees through Western Health Advantage, since they could be paid better for seeing those patients as Blue Shield enrollees.

Neither PacifiCare nor Health Net expressed disappointment at losing 350,000 lives between them. Apparently this was not a profitable group for them, although it would seem that the loss of that many lives might hurt those HMOs in their negotiations with hospitals. CalPERS has used its clout to drive down premiums, and plans had complained that they could not continue serving the group at those rates. On the other hand, CalPERS expressed strong concern about the size of the price increase bid by Kaiser Permanente, which is the largest plan for CalPERS and has one-third of the total enrollment.

CalPERS made a deliberate decision not to increase enrollee co-payments for prescriptions or office visits. Even with increases adopted last year, CalPERS members still pay relatively little in point-of-service cost sharing. For 2002, their premium contribution went up only about 6%, although they began to pay additional co-payments. In 2003, they will face a hefty increase in their share of the premium. CalPERS HMO enrollees will pay 15% to 30% more in health benefit premiums for basic coverage. *Exhibit 20* in the next section of the report provides additional detail about the premium increases for CalPERS's plans in the context of premium trend for commercial HMOs.

Enrollment in the two PPO plans has grown significantly in the past three years. In 1996, about 100,000 enrollees were in the PPOs, or about 11% of the total. PPO enrollment more than doubled so that by 2002, 214,000 were enrolled in the two PPOs, or 20% of the total enrollment. Enrollment in PPOs grew for several reasons: favorable pricing before 2002, enrollee preference for PPOs and the fact that there were no HMO options available in some counties. However, CalPERS suffered large losses on those self-funded plans. It had to raise premiums for its two PPO plans in order to rebuild the reserves for those plans. It increased rates for the two PPOs by an average of 17% for 2002 and will increase by about 20% more for 2003.

CalPERS has considered a variety of other approaches to health benefits, including putting all enrollees in a single, self-funded PPO arrangement or further reducing the number of contracts while incorporating a risk adjustment system. It has intensively studied a range of strategies, set some aside, and taken steps toward decisions on the others.

After a year of study, it decided in 2001 not to pursue some version of direct contracting with provider networks. (The term "direct contracting" in California usually refers to health plans bypassing IPAs and contracting with individual clinics and physicians. In this context, it refers to employers or purchasing coalitions bypassing health plans and contracting with networks—care systems—of physicians and hospitals.) CalPERS requested information from potential care systems and was not pleased with the results. Given the chance to set their own prices, the providers responded with large rate increases. Citing the experience of the Buyers' Healthcare Action Group (BHCAG) companies in Minnesota, it said that CalPERS experience with premium increases (up to 2002) and administrative costs was probably as good. Finally, it said that significant start-up costs for administrative systems and other expenses of a direct contracting plan would also erode any potential savings.

Member and provider expectations of direct contracting differ significantly. During focus groups, members indicated they would support a direct contracting plan only if there were significant out-of-pocket savings and if it was an alternative to current plan choices. Providers, on the other hand, expected reimbursement to increase and wanted an exclusive relationship or narrower networks. It should be noted that member reluctance to enroll in a direct contracting plan that doesn't meet their criteria will make it difficult to achieve the economies of scale necessary to achieve cost savings.

Pacific Business Group on Health. The Pacific Business Group on Health (PBGH) has provided leadership on health care purchasing and quality initiatives. More than 40 large companies support PBGH, and about half of them participate in its health benefit purchasing alliance. Its HealthScope Web site is a source of comparative information about effectiveness of care and enrollee satisfaction at the health plan level. In the last year, it has also begun to provide information based on a provider group analysis.

Like CalPERS, PBGH has used its clout (about 400,000 lives in the purchasing alliance) and its prominence to negotiate premiums with health plans. It has also sought to create incentives for health plans and providers to emphasize quality improvement. In 1998, PBGH negotiated contracts with health plans in which a portion of the premium was tied to successful achievement of certain performance measures.

Beginning in 2003, member companies will have additional plan options through the purchasing alliance. Working with Definity, a Minneapolis-based company that organizes and markets "consumer choice" plans for employers, member companies will be able to buy other kinds of plans. The Definity model includes the employer funding a medical spending account and major medical insurance. The spending account may be $1,000 and the major medical policy may kick in after the enrollee has satisfied a $2,500 deductible. These plans are sometimes described as defined contribution plans, because the employer sets the amount of money that it will make available to buy health benefits. One goal of this arrangement is to get consumers more involved in their care decisions. These options will not replace the current HMO and PPO offerings, but will be in addition to them.

How will employers and consumers respond to these new options? The experience of University of Minnesota may provide some insight. The University, with 15,000 employees, decided to leave the state government benefits program and to launch new arrangements. On a self-funded basis, it offered four plans for 2002: two HMOs that had been offered before and two new, "non-traditional" plans, Patient Choice and Definity. Patient Choice is the company that now manages the care system model benefit plan devised by the Buyers HealthCare Action Group. The plan is called Choice Plus. Patient Choice is also marketing the plan in other local markets, beginning with Denver, Portland (Oregon), and Boston.

During the open enrollment for the 2002 benefit year, HealthPartners, a classic HMO with close historic ties to University employees, got 54% of the group. (The new CEO of Kaiser Permanente is the former CEO of HealthPartners in Minnesota.) The University continued its practice of paying the full cost of employee coverage for the lowest cost plan, and HealthPartners was the low-cost plan in the Minneapolis-St. Paul area. Patient Choice received 31% of the group. It organized its care systems into three price tiers, and an employee could choose a care system from the low-cost tier with no additional premium contribution. Or they could buy up to a higher cost care system. Preferred One, the other HMO offered, grew its market share to 10.6%. Its provider network included the University's out-of-state campuses. Definity got less than 5% of University employees. By some accounts, Definity's plan design was hard for employees to understand. It also was priced higher, which meant that consumers would spend more out-of-pocket than for some other plan options. Patient Choice brought new business to low-cost care systems, especially at the Duluth campus.

As start-up companies have sought to develop consumer choice products, they face the challenge of trying to build that business one company at a time (even within purchasing coalitions) and one market at a time. They now also face competition from companies like Health Net and Aetna U.S. Healthcare and some Blue Cross plans that have announced that they will offer their own version of consumer choice products (probably through affiliated insurance companies and not through their HMOs). For example, Health Net has rolled out a new product in Spokane, Washington, with its insurance company affiliate teaming up with Vivius, another start-up company, also based in Minnesota.

A possible move to consumer choice products may raise regulatory issues for the state. These companies are not insurers themselves, but rather packagers of administrative services and network management; any insurance products that are needed are contracted out. In interviews, some observers said that they expected that Definity and similar products would bypass DMHC and make any filings necessary with the Department of Insurance.

As start-up companies have sought to develop consumer choice products, they face the challenge of trying to build that business one company at a time (even within purchasing coalitions) and one market at a time. They now also face competition from national companies that have announced that they will offer their own version of consumer choice products.

HMO Enrollment Growth

How many HMO enrollees in insured plans in each state and how much did HMO enrollment grow or not in 2000?

California 21,362,701, up 4.7%

Colorado 1,636,672, up 4.0%

Florida 4,860,239, down 0.1%

Illinois 2,386,642, down 2.7%

Michigan 2,754,930, down 0.3%

Minnesota 1,246,174, down 5.0%

Ohio 2,686,507, down 3.3%

Texas 3,938,259, up 1.7%

III. TREND REVIEW

Using publicly available data, this section of the report presents an analysis of trends and operations for California health plans. The data on health plan enrollment and finances are generally presented on a statewide basis in this section. The measures used are also presented in the author's market studies for other states, and a series of sidebars compares California health plans with those in the comparison states.

About This Analysis

This analysis of HMO enrollment and finances is based on the annual and quarterly statements that licensed health plan submit to DMHC. (The Department of Corporations used to handle those responsibilities.) Most of the tables in this section report data for health plan fiscal years ending in 2000, with additional tables of data on enrollment and profitability as of the second quarter of 2001. The commercial HMOs generally have December 31 fiscal year-ends. However, almost all of the limited license and county-sponsored plans have June 30 year-ends. In general, most of the analysis is based on annual statements for fiscal years ending in 2000.

As in other states, health plans in California file annual and quarterly statements based on the National Association of Insurance Commissioners (NAIC) forms. Until 2001, however, California still used an NAIC form from the 1980s. DMHC has instructed health plans that beginning in 2002 they will file new financial reports. The new report forms are not the same as the NAIC Health Company forms used in other states. Still, they will include much new information that will be useful to regulators and researchers. For example, the standard revenues and expenses report has been changed and will now have separate lines for capitation payments to providers and health care payments under other arrangements. Another exhibit will take the revenue and expense report and break it out by different lines of business: commercial, Medicare, and Medicaid. This information has been available in other states for several years.

California health plans also complete certain supplementary reports. One report is used to calculate tangible net equity (TNE), a measure of the adequacy of a health plan's net worth that is tied to, among other things, its distribution of risk to provider organizations.

This analysis also utilizes data reported by other government agencies. The California Department of Health Services publishes monthly reports on enrollment in Medi-Cal managed care plans. In addition, the federal Centers for Medicare and Medicaid Services (CMS, formerly the Health Care Financing Administration) reports data each quarter on enrollment in Medicare HMOs by county.

Within the exhibits the health plans are grouped. In most of the exhibits, data on the eight largest plans is presented at the top, since some readers will be most interested in that information. Data on the smaller plans follows. The county-sponsored health plans appear in a separate group. Finally, data on the limited license plans are shown at the bottom of the table.

HMO Enrollment

Exhibit 5 shows enrollment in California HMOs at the end of 2000. Before presenting this analysis, it is important to describe methodology issues that affect the analysis and presentation of data on HMO enrollment in California.

First, there are several opportunities to double count health plan enrollees, especially those in Medi-Cal plans. For example, L.A. Care Health Plan, the local initiative plan run by Los Angeles County, subcontracts its entire Medi-Cal enrollment of more than 700,000 lives to "health plan partners," namely these HMOs: Blue Cross, Care 1st, Community Health Plan, Kaiser Permanente, Maxicare, Tower, and WATTSHealth/United Health Plan. Note that Maxicare and Tower have folded and no longer participate with L.A. Care. For that reason, L.A. Care is listed separately in some of the tables in this section, and its enrollees are not including in the total row of those tables. The commercial HMO for Los Angeles County Medi-Cal enrollees is Health Net, which in turn subcontracts out about half of its 400,000 Medi-Cal lives to two other HMOs, Molina Healthcare and Universal Care.

CalOptima, the county health system for Medi-Cal in Orange County also has contracts with HMOs for a portion of its enrollees. CalOptima contracts with Blue Cross, Universal and Kaiser Permanente. Prior to October 2001, it also contracted with United Health Plan (WATTSHealth). According to the annual statements filed with DMHC, both the prime contractor and the subcontractor list those Medi-Cal enrollees. In this report, enrollment was adjusted based on information that the health plans gave about their subcontracting arrangements.

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. For that reason, enrollment

figures for those limited license plans are reported below the total.

Second, some large HMOs include enrollment in PPO plans or by self-funded groups in their annual

Exhibit 5

Enrollment in California HMOs, 2000

HMO	Commercial	Medicare	Medi-Cal	TOTAL	1999	Change
Aetna U.S. Healthcare	689,470	52,067	0	741,537	643,384	15.3%
Blue Cross of California*	3,505,251	37,162	604,845	4,147,258	3,808,476	8.9%
Blue Shield of California*	1,933,615	85,804	0	2,019,419	1,844,465	9.5%
CIGNA HealthCare	694,836	8,169	0	703,005	687,261	2.3%
Health Net**	1,650,636	142,666	254,227	2,047,529	1,947,885	5.1%
Kaiser Foundation	5,334,779	605,007	102,978	6,042,764	5,935,685	1.8%
PacifiCare	1,812,000	564,801	0	2,376,801	2,328,082	2.1%
Prudential Health Care*	299,980	0	0	299,980	515,670	-41.8%
Care 1st Health Plan	3,749	0	206,707	210,456	222,590	-5.5%
Chinese Community Health Plan	3,843	1,608	0	5,451	6,736	-19.1%
Cohen Medical Corp (Tower Health)	32,541	0	98,840	131,381	97,525	34.7%
Community Health Group	13,008	0	64,243	77,251	75,212	2.7%
Community Health Plan	15,867	0	89,495	105,362	108,493	-2.9%
Contra Costa Health Plan	13,107	724	38,386	52,217	53,936	-3.2%
Health Plan of the Redwoods	71,597	10,563	0	82,160	87,655	-6.3%
Inter Valley Health Plan	50,002	19,506	0	69,508	62,762	10.7%
Lifeguard	250,284	0	0	250,284	244,351	2.4%
Maxicare	151,651	11,699	85,131	248,481	275,100	-9.7%
Molina Healthcare	7,868	0	197,930	205,798	170,186	20.9%
National Med	31,192	14,672	0	45,864	47,507	-3.5%
Omni Healthcare	0	0	0	-	26,089	-100.0%
On Lok Senior Health Plan	2	822	39	863	794	8.7%
One Health Plan	87,507	0	0	87,507	68,830	27.1%
SCAN Health Plan	7,485	37,226	1,382	46,093	39,814	15.8%
Sistemas Medicos Nacionales	9,438	0	0	9,438		
Sharp Health Plan	45,226	0	43,110	88,336	82,004	7.7%
UC San Diego Health Plan	0	3,795	11,874	15,669	14,788	6.0%
United HealthCare	0	0	0	-	136,809	-100.0%
Universal Care	116,568	101	158,910	275,579	237,518	16.0%
WATTSHealth Foundation (UHP Healthcare)	9,971	9,070	75,105	94,146	108,125	-12.9%
Western Health Advantage	32,519	1,901	15,110	49,530	37,319	32.7%
County Health Plans						
Alameda Alliance for Health	4,963	0	69,726	74,689	79,386	-5.9%
CalOptima (Orange County)	0	0	188,832	188,832	0	
Central Coast Alliance	22,297	0	43,258	65,555		0
Inland Empire Health Plan	0	0	180,221	180,221	143,095	25.9%
Kern Health Systems	0	0	51,941	51,941	47,350	9.7%
Partnership Health Plan	0	0	64,656	64,656	0	
San Francisco Health Plan	7,576	0	22,365	29,941	27,023	10.8%
San Joaquin County Health	4,867	0	49,367	54,234	56,479	-4.0%
San Mateo Health Commission	669	0	36,286	36,955	39,538	-6.5%
Santa Barbara Regional Health Authority	0	0	1,302	1,302		
Santa Clara County Health Authority	4,681	0	37,323	42,004	45,645	-8.0%
Valley Health Plan	7,531	0	24,991	32,522	35,614	-8.7%
Ventura County	0	0	10,182	10,182	8,132	25.2%
TOTAL	**16,926,576**	**1,607,363**	**2,828,762**	**21,362,701**	**20,397,313**	**4.7%**
1999	16,267,681	1,611,319	2,518,313	20,397,313		
Change	4.1%	-0.2%	12.3%	4.7%		
% by Program	79.2%	7.5%	13.2%			
Limited License Plans and Other						
Heritage Provider Network	160,712	0	0	160,712	145,998	10.1%
L.A. Care (Local Initiative Health Authority)	0	0	599,415	599,415	616,383	-2.8%
Priority Plus	94,245	0	0	94,245	99,767	-5.5%
PrimeCare Medical Network	237,564	42,175	0	279,739	123,293	126.9%
Scripps Clinic Health Plan Services	0	0	0	-		

Source: Author's analysis of HMO annual statements, Report #4, Enrollment and Utilization Table. Based on fiscal years ending during 2000.

*This table excludes certain other members as follows: Blue Cross reported an additional 2,692 in Administrative Services Only plans; Blue Shield 253,844 in Self-Funded plans; Prudential Health showed 340,343 in dental only plans.

**Health Net's enrollment is adjusted downward to reflect Medi-Cal enrollees in Los Angeles County that are subcontracted to Molina Healthcare (113,747) and Universal Care (140,789).

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

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. While it is important to be consistent in reporting on insured plans to the extent possible, it is also important not to miss a point. That is, the PPO and self-insured lives that are reported by an HMO give that health plan extra patient volume and some additional leverage in negotiating contracts with hospitals.

Blue Cross reports separately the number of self-funded lives included in its HMO statement, and this report excludes those lives. In 2002, Prudential Health listed 406,000 enrollees who only receive dental benefits. CIGNA enrollment report includes enrollees in its FlexCare product. In other states, most FlexCare enrollees are in self-funded groups.

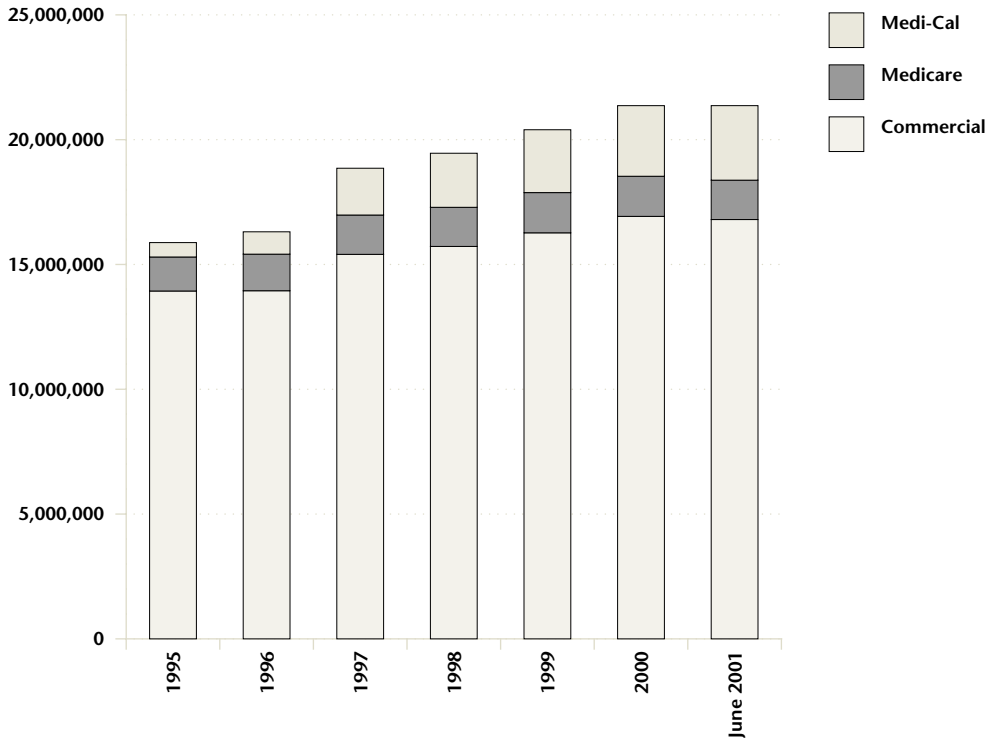
Having made these adjustments, here are the results. After years of steady growth, enrollment growth in California HMOs slowed in 2000 and was flat in the first half 2001. Enrollment grew by 4.7% in 2000, from 20.4 million at the end of 1999 to 21.4 million. While there was a slight decrease in the number of seniors in HMOs, both commercial and Medi-Cal plans reported increases. Almost all of the Medi-Cal increases resulted from three Medi-Cal plans gaining HMO licenses in 2000: Central Coast Alliance, CalOptima and Partnership Health Plan.

Among commercial HMOs, Aetna U.S. Healthcare reported an increase of 98,000 lives, or 15.3%, although some of that came from absorbing groups that had been part of Prudential Health. Aetna U.S. Healthcare acquired Prudential Health in 1999. Enrollment in Prudential's HMO in California declined by 215,000 lives. Blue Cross and Blue Shield each grew by about 10%, adding enrollment in all of their lines of business. Blue Cross increased its Medi-Cal enrollment to over 600,000, while Blue Shield does not contract with the state for Medi-Cal. Blue Shield has a significant opportunity to add public employees in 2003, when it goes after the 350,000 CalPERS enrollees that Health Net and PacifiCare now enroll. Health Net added 100,000 net new lives in 2000, although its gains were only in commercial accounts. Kaiser added 105,000 new enrollees in 2000 on top of 185,000 in 1999. Among mid-sized HMOs, Molina Medical Centers added 36,000 new lives and Universal Care grew by 16%, or about 37,000 net lives.

Exhibit 6 shows the trend in enrollment in California HMOs between 1995 and 2001. Between 1995 and 2000, California HMOs have seen their enrollment grow from 15.9 million to 21.4 million. As shown in *Exhibit 7*, net enrollment

Exhibit 6

Enrollment in California HMOs, 1995-2001



was virtually unchanged in the first half of 2001. Enrollment in commercial plans declined by 127,000 and Medicare plans declined by 30,000 seniors. However, enrollment in Medi-Cal plans increased by 160,000. Blue Cross added 76,000 Medi-Cal enrollees.

Exhibit 7

Enrollment in California HMOs, June 2001

HMO	2000	June 2001	Change
Aetna U.S. Healthcare	741,537	879,507	18.6%
Blue Cross of California	4,147,258	4,227,961	1.9%
Blue Shield of California	2,019,419	2,058,506	1.9%
Cigna HealthCare	703,005	653,854	-7.0%
Health Net*	2,047,529	2,148,886	5.0%
Kaiser Foundation	6,042,764	6,138,684	1.6%
PacifiCare	2,376,801	2,198,442	-7.5%
Prudential Health Care	299,980	20,778	-93.1%
Care 1st Health Plan	210,456	240,172	14.1%
Chinese Community Health Plan	5,451	8,154	49.6%
Cohen Medical Corp (Tower health)	131,381	0	100.0%
Community Health Group	77,251	83,161	7.7%
Community Health Plan	105,362	128,882	22.3%
Health Plan of the Redwoods	82,160	75,874	-7.7%
Inter Valley Health Plan	69,508	69,585	0.1%
Lifeguard	250,284	240,490	-3.9%
Maxicare	248,481	257,408	3.6%
Molina Healthcare	205,798	224,187	8.9%
National Med	45,864	35,964	-21.6%
On Lok Senior Health Plan	863	875	1.4%
One Health Plan	87,507	82,051	-6.2%
SCAN Health Plan	46,093	46,676	1.3%
Sharp Health Plan	88,336	97,670	10.6%
Sistemas Medicos Nacionales	9,438	9,069	-3.9%
UC San Diego Health Plan	15,669	12,053	-23.1%
Universal Care	275,579	317,211	15.1%
WATTSHealth Foundation (UHP Healthcare)	94,146	99,945	6.2%
Western Health Advantage	49,530	51,472	3.9%
County Health Plans			
Alameda Alliance for Health	74,689	74,909	0.3%
CalOptima	188,832	190,110	0.7%
Central Coast Alliance for Health	65,555	71,651	9.3%
Contra Costa Health Plan	52,217	55,574	6.4%
Inland Empire Health Plan	180,221	190,280	5.6%
Kern Health Systems	51,941	62,086	19.5%
Partnership Health Plan	64,656	68,011	5.2%
San Francisco Health Plan	29,941	34,146	14.0%
San Joaquin County Health	54,234	55,956	3.2%
San Mateo Health Commission	36,955	38,832	5.1%
Santa Barbara Regional Health Authority	1,302	1,419	9.0%
Santa Clara County Health Authority	42,004	57,613	37.2%
Valley Health Plan	32,522	46,735	43.7%
Ventura County	10,182	9,876	-3.0%
TOTAL	21,362,701	21,364,715	0.0%
Limited License Plans and Other			
Cedars-Sinai Provider Plan	636		
Concentrated Care Inc.	1,520		
Heritage Provider Network	160,712	165,865	3.2%
L.A. Care (Local Initiative Health Authority)	599,415	710,747	18.6%
Priority Plus	94,245	0	100.0%
PrimeCare Medical Network	279,739	241,714	-13.6%
ProMed Health Care Administrators	0	11,394	
Scripps Clinic Health Plan Services	153,057	175,418	14.6%

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).

Where are the commercial members going? The Kaiser survey data for California do show a trend away from HMO plans to PPO products. This reflects a preference by consumers who think that PPOs are less restrictive; by physicians who think that they are paid better for PPO enrollees; and by the health plans themselves, who want to be able to offer a broad portfolio of benefit plans and who have had a difficult time managing risk under HMO arrangements.

Aetna U.S. Healthcare continued to add new members, but Prudential Health has almost disappeared. Enrollment in Prudential Health went from 515,000 in 1999 to 300,000 in 2000 and down to 21,000 in June 2001. Health Net added 100,000 new members in the first half of 2001, split between commercial and Medicare enrollees. PacifiCare saw its enrollment decline by 7.5%, losing about 170,000 members, 133,000 of them in commercial plans. Care 1st and Molina Medical continued to grow as both added enrollees from HMOs that became insolvent.

Where are the commercial members going? The Kaiser survey data for California do show a trend away from HMO plans to PPO products. As was discussed in last year's report, this reflects a preference by consumers who think that PPOs are less restrictive; by physicians who think that they are paid better for PPO enrollees; and by the health plans themselves, who want to be able to offer a broad portfolio of benefit plans and who have had a difficult time managing risk under HMO arrangements.

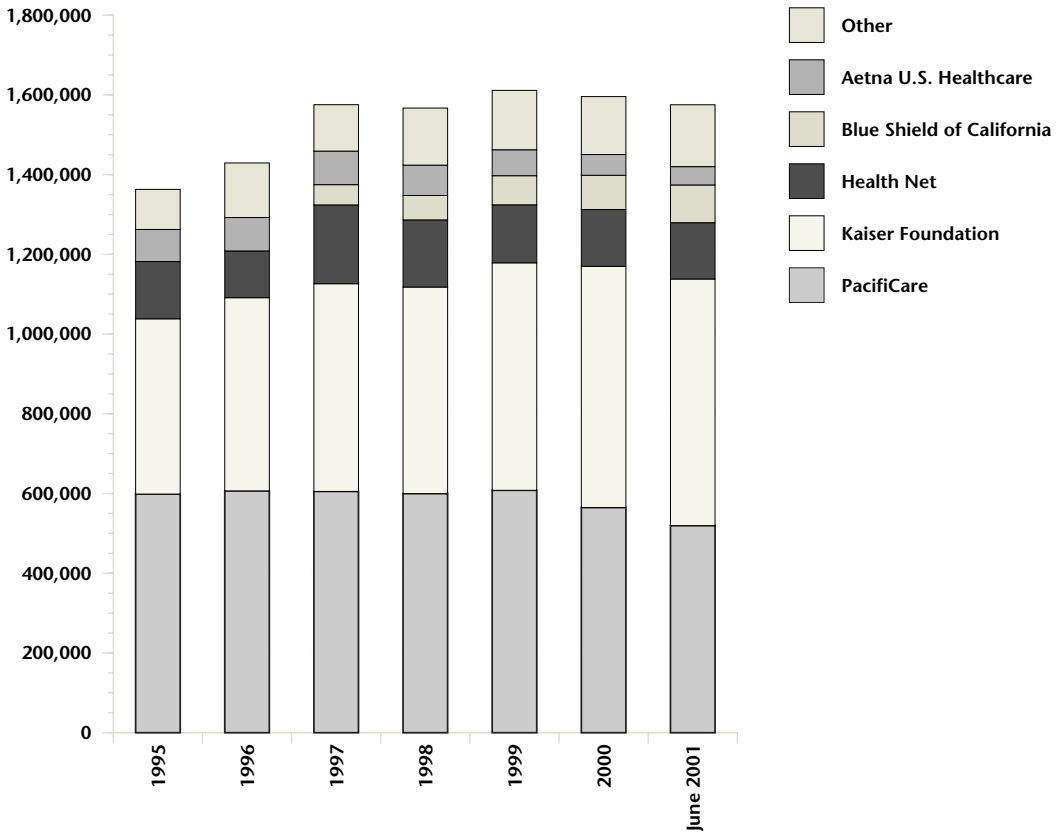
Medicare Plans

California has been one of the leading states in the country for the number and percentage of seniors enrolled in Medicare+Choice HMO plans. However, that number apparently has peaked, and the number of plans and the number of enrollees have both declined in 2000 and 2001. In *Exhibit 8*, the steady rise and now gradual fall of enrollment in Medicare HMO plans is shown. Enrollment peaked in 1999 at 1,611,000 and has gone down since. As of June 2001, there were 1,575,000 California seniors in HMO plans.

Medicare HMOs were seen as a possible solution for a range of problems. Among the goals: helping seniors get access to prescription drug coverage, which is not part of standard Medicare; helping employers to reduce the balance sheet burden of commitments made for retiree health benefits; helping the Federal government to contain the cost of the Medicare program and extending the life of that trust fund; and even giving hospitals a way to improve their economic power by allowing them to contract directly with the federal government.

Exhibit 8

Enrollment in California Medicare+Choice HMOs, 1995-2001



Source: Author's analysis of HMO annual and quarterly statements, Report #4. Kaiser enrollment Includes about 29,000 seniors in a Medicare Cost contract.

In 1995, PacifiCare was the largest senior plan in the state, with 600,000 enrollees in what is popularly known as Secure Horizons. Kaiser Permanente was the second largest senior plan then, with 440,000 members. Since then, Kaiser has grown steadily and reached 618,000 in June 2001. PacifiCare has seen its numbers go down to 520,000. While Kaiser has about 10% of its California enrollment in senior plans, seniors are about 25% of PacifiCare's California enrollment. PacifiCare has exited some counties and has added some significant enrollee cost-sharing in other counties. As PacifiCare sees its Medicare+Choice enrollment decline in California and some other states, it has begun to market Medicare supplement products. Those two HMOs account for more than two-thirds of the Medicare+Choice enrollment in the state. Among the plans that have gotten out of this line of business in the past four years are CIGNA, Lifeguard, Prudential Health, MaxiCare and United HealthCare.

Exhibit 9 summarizes information about Medicare+Choice payment rates and penetration in 24 counties, based on data for 2001 and 2002. About 5 million Californians are age 65 or older, and in 2002, about 32% of all California seniors were enrolled in HMOs.

The average area per capita cost (AAPCC) is the base for setting payment rates to Medicare HMOs, although it is subject to a variety of adjustments. When the formula was first developed, it was intended to capture historical costs of care at the county level. Since then it has been modified in numerous ways. The highest AAPCC rate in the state is in Los Angeles County where it is almost $700 per month in 2002. In many counties of the state it is at the current urban minimum rate of $553. Most counties shown in the table received a 3% increase for 2002.

Based on data from the CMS Web site, the table shows that penetration is especially high in three large counties where more than 45% of seniors are in HMO plans: Riverside, San Bernardino, and San Diego. While the payment rates there are not as high in Los Angeles, it does appear that the financial arrangements with physicians and hospitals have continued largely intact in those counties.

The number of plan options available has declined in many counties, and access varies widely across the state. While there are still 10 HMOs offering Medicare plans in Los Angeles, only three HMOs are staying in San Francisco in 2002. San Diego has lost two HMO options in the last two years, as have several other counties. There are no Medicare+Choice plans available in Monterey

Penetration is especially high in three large counties where more than 45% of seniors are in HMO plans: Riverside, San Bernardino, and San Diego. While the payment rates there are not as high in Los Angeles, it does appear that the financial arrangements with physicians and hospitals have continued largely intact in those counties.

Exhibit 9

Medicare+Choice Payment Rates and Penetration in Selected Counties, 2001-2002

County	2002 AAPCC	Increase Over 2001	Number of HMOs in 2000	Nuumber of HMOs in 2002	Seniors in HMOs, December 2001	Eligible Seniors	Penetration Rate
Alameda	648.94	3.0%	6	3	64,477	163,505	39.4%
Contra Costa	660.90	3.0%	7	4	53,793	123,156	43.7%
Fresno	553.04	23.8%	4	2	21,099	95,437	22.1%
Kern	577.77	3.0%	6	5	29,650	78,892	37.6%
Los Angeles	694.08	3.0%	10	10	352,218	1,036,057	34.0%
Marin	591.68	3.0%	3	1	11,327	35,900	31.6%
Monterey	570.29	3.0%	0	0	320	44,780	0.7%
Napa	626.23	3.0%	2	1	8,237	22,536	36.6%
Orange	640.48	3.0%	9	9	109,778	306,262	35.8%
Placer	554.42	3.0%	4	4	16,760	37,074	45.2%
Riverside	581.65	3.0%	10	7	98,681	215,337	45.8%
Sacramento	573.26	3.0%	5	4	68,182	161,608	42.2%
San Bernardino	594.17	3.0%	9	8	83,367	178,706	46.7%
San Diego	592.28	3.0%	6	4	160,608	355,895	45.1%
San Francisco	600.52	3.0%	7	3	39,424	122,230	32.3%
San Joaquin	553.04	9.4%	4	2	20,839	72,372	28.8%
San Mateo	553.04	4.5%	4	3	32,719	94,592	34.6%
Santa Barbara	553.04	19.0%	3	3	15,909	57,351	27.7%
Santa Clara	570.72	3.0%	5	4	65,680	174,360	37.7%
Santa Cruz	553.91	3.0%	1	1	5,030	28,888	17.4%
Solano	580.56	3.0%	2	2	16,521	42,858	38.5%
Sonoma	558.49	3.0%	4	2	28,963	65,595	44.2%
Stanislaus	553.04	6.5%	4	2	24,778	58,804	42.1%
Ventura	573.30	3.0%	5	3	27,899	90,698	30.8%

Source: Author's analysis of reports and web site information from Centers for Medicare and Medicaid Services, www.hcfa.gov

Even in counties where Medicare+Choice plans are still available in 2002, seniors will be affected by reductions in benefits or increases in enrollee cost-sharing. Some seniors (and health plans) are looking at Medicare Supplement policies, but those can be costly. A plan with significant drug coverage can cost $400 a month.

County, For 2002, both PacifiCare and Health Net dropped out of certain counties in the San Francisco Bay area, affecting almost 20,000 enrollees. Aetna U.S. Healthcare had exited northern California a year earlier.

Even in counties where Medicare+Choice plans are still available in 2002, seniors will be affected by reductions in benefits or increases in enrollee cost-sharing. In Fresno County, for example, the number of plans has gone from four to two. Only one of the two remaining offers a prescription drug benefit. In other counties, the drug benefit is now limited to generic drugs, or capped at perhaps $1,200 a year. Some seniors (and health plans) are looking at Medicare Supplement policies, but those can be costly. A plan with significant drug coverage can cost $400 a month.

Even as they complain about the adequacy of Medicare payments outside of HMOs, some provider systems have concluded that they are financially better off seeing patients in traditional Medicare and exiting their Medicare HMO contracts. That in turn is cited by HMOs as the reason that they can no longer offer Medicare+Choice plans in certain counties or zip code areas.

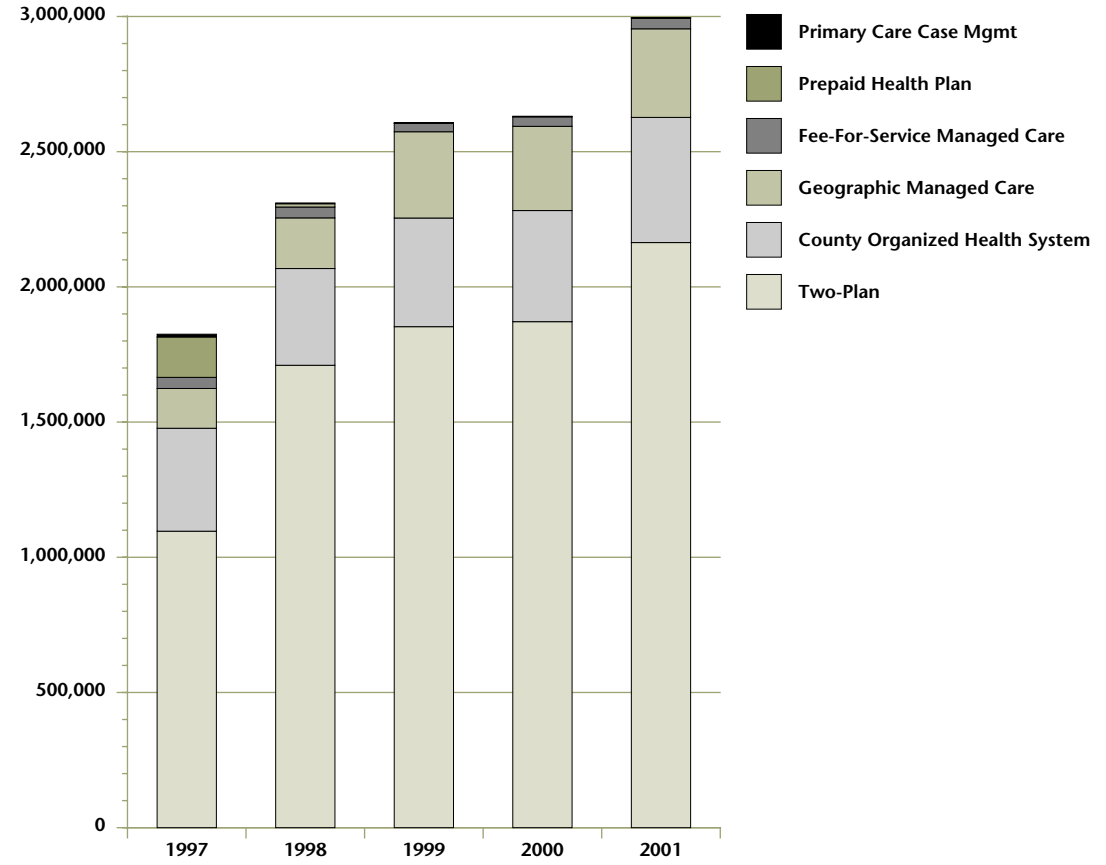
Medi-Cal

Medicaid programs are a key component of state budgets. While most of the enrollees are low-income households with children, most of the dollars are spent to provide services to seniors and disabled persons in long-term care settings. State Medicaid managed care programs focus on the first group, although a few states have experimented with applying managed care to seniors and others in long-term care. Enrollment in Medicaid declined from 1997 to 2000 in many states, including California. It has since reversed course and is increasing. In the first nine months of 2001, the number of Medi-Cal recipients grew from 5.2 million to 5.7 million. This growing caseload has put significant pressure on the budgets of state and county governments.

The introduction of managed care arrangements to Medicaid had two major purposes: improving continuity of care by emphasizing primary care, and saving money to the Medicaid program. Better use of primary care, in theory, will result in fewer hospital admissions and less use of hospital emergency rooms. States usually pay managed care plans a capitated rate that is set below the amount historically

Exhibit 10

Enrollment in Medi-Cal Managed Care Arrangements, 1997-2001



Source: Author's analysis of monthly enrollment reports from Department of Health Services

spent on similar enrollees. In other words, state Medicaid agencies allow themselves a discount.

Since beginning its managed care initiatives more than 10 years ago, California has used a number of different arrangements for Medi-Cal managed care. At first, it used *prepaid health plan* (PHP) arrangements where providers did not accept 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. As of June 2001, only one PCCM organization remains in operation and only a few hundred recipients are in PHP arrangements. With the decline of these models, three primary structures are now used:

- The *two-plan system,* in which a county-sponsored health plan and a commercial HMO compete for Medicaid enrollees. Los Angeles, Riverside, San Francisco, and Alameda are examples of two-plan counties, although these counties have organized managed care in different ways.
- *County-organized health systems* (COHS), where a county authority, sometimes in partnership with a neighboring county, manages a health plan-like arrangement: Orange, Santa Barbara, Monterey, and Napa counties are examples.
- *Geographic managed care* (GMC), where several health plans compete for enrollees within a county, but there is no competing government plan. There are GMC plans in Sacramento and San Diego Counties with five to seven health plans competing.

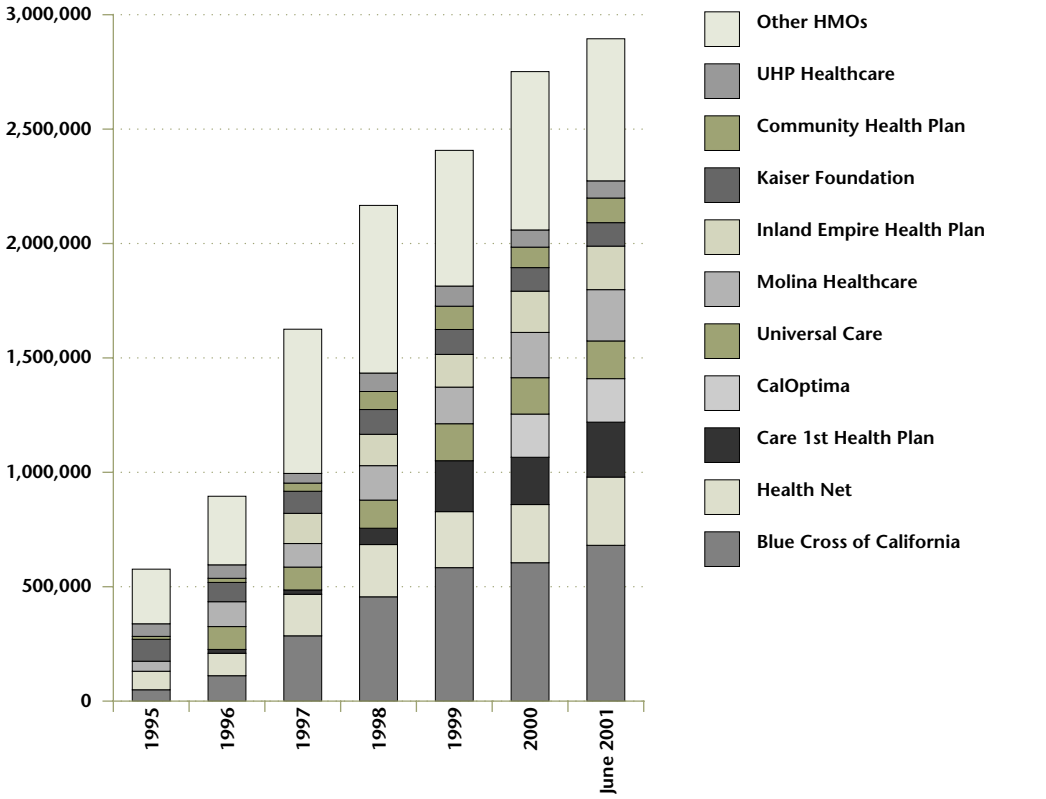
There are now 3 million Medi-Cal beneficiaries in managed care arrangements. As *Exhibit 10* shows, more than two-thirds of them are in the two-plan counties. Enrollment in two-plan counties doubled from 1.1 million in 1997 to 2.2 million in 2001. About 463,000 are in County-Organized Health Systems, and 328,000 are in the San Diego and Sacramento GMC arrangements.

Exhibit 11 presents a second look at Medi-Cal enrollment since 1995, based on enrollment in the participating HMOs. Blue Cross is the largest contractor. With 681,000 enrollees as of June 2001, it had almost one fourth of the Medi-Cal managed care enrollment. Its WellPoint Health Networks parent company also operates Medicaid HMO plans in Oklahoma and Puerto Rico. Health Net, Care 1st, and Molina Healthcare follow behind with between 224,000 and 298,000 Medi-Cal enrollees. Kaiser Permanente has about 100,000 Medi-Cal enrollees in a few counties, but generally imposes limits on new enrollment.

There are now 3 million Medi-Cal beneficiaries in managed care arrangements and more than two-thirds of them are in the two-plan counties.

Exhibit 11

Enrollment in Medi-Cal HMO Plans, 1995-2001



Source: Author's analysis of HMO annual statements, Monthly Enrollment reports from Department of Health Services

Blue Cross is the largest contractor. With 681,000 enrollees as of June 2001, it had almost one fourth of the Medi-Cal managed care enrollment.

Exhibit 12 shows enrollment by county in the different Medi-Cal arrangements. Eight counties now participate in County Organized Health Systems, while 12 counties have some form of a two-plan system. In some of the two-plan counties, the county never created its own health plan, but instead contracted with a commercial HMO. So, in Tulare and Fresno counties, Blue Cross and Health

Exhibit 12

Enrollment in Medi-Cal Managed Care Plans for Counties, 2001

County Organized Health Systems	Counties	2001 Enrollment
CalOptima	Orange	238,474
Central Coast Alliance	Monterey and Santa Cruz	71,141
Partnership Health Plan	Napa, Solano and Yolo	70,256
San Mateo	San Mateo	38,412
Santa Barbara	Santa Barbara	44,636
Subtotal		462,919

Two-Plan System Counties

County	Plans	Enrollment	Share
Alameda	Alameda Alliance	67,848	71.0%
	Blue Cross	27,688	29.0%
		95,536	
Contra Costa	Contra Costa Health Plan	40,368	89.2%
	Blue Cross	4,890	10.8%
		45,258	
Fresno	Blue Cross	119,378	80.3%
	Health Net	29,355	19.7%
		148,733	
Kern	Kern Heath Systems	62,138	66.5%
	Blue Cross	31,328	33.5%
		93,466	
Los Angeles*	L.A. Care	738,153	60.4%
	Health Net	484,306	39.6%
		1,222,459	
Riverside	Inland Empire Health Plan	86,603	71.4%
	Molina Healthcare	34,689	28.6%
		121,292	
San Bernardino	Inland Empire Health Plan	117,643	71.3%
	Molina Healthcare	47,457	28.7%
		165,100	
San Francisco	San Francisco	26,223	63.8%
	Blue Cross	14,907	36.2%
		41,130	
San Joaquin	Health Plan of San Joaquin	51,165	75.8%
	Blue Cross	16,366	24.2%
		67,531	
Santa Clara	San Clara Family Health	46,405	67.8%
	Blue Cross	22,043	32.2%
		68,448	
Stanislaus	Blue Cross	26,391	100.0%
	Omni Healthcare	0.0%	
		26,391	
Tulare	Blue Cross	51,716	75.5%
	Health Net	16,796	24.5%
		68,512	
	All Enrollees	2,163,856	
	County Plans	1,434,031	66.3%
	Commercial Plan	729,825	33.7%

Source: Author's analysis of Department of Health Services, Monthly Enrollment Report for December 2001
*In Los Angeles County, L.A. Care subcontracts all Medi-Cal enrollees to other HMOs, Including Blue Cross, Care 1st, and Kaiser. Health Net subcontracts a portion of its enrollees to Universal and Molina Healthcare.

Net are the two competing plans. Blue Cross is the county plan. For the most part, the county plan has attracted and maintained a higher share of the enrollees. That is true even though there is significant overlap in the provider networks. The commercial plans contract with traditional Medicaid providers and also offer their commercial network providers (though not necessarily all of them).

In Los Angeles County, L.A. Care subcontracts its Medi-Cal enrollees to its partner plans, then provides oversight of those plans and the care delivered by their contracted providers. It keeps a portion of the capitation from the Department of Health Services to pay for its own administrative expenses. When two of the health plan partners became insolvent in 2001, L.A. Care played an important role in controlling the damage. It helped to make sure that enrollees were able to switch to other HMOs while still keeping their physicians. For Healthy Families, L.A. Care does not use the same arrangement with partners. Rather, it enrolls recipients into its plan and competes with HMOs that have contracts to run Healthy Families programs in the county.

With the state facing a $23.6 billion budget deficit, state outreach efforts to enroll families and children in Medi-Cal and in Healthy Families are likely to be cut. Proposals have also been offered that would limit eligibility for Medi-Cal to families who make less than 67% of the federal poverty guideline. One projection is that this would reduce Medi-Cal caseloads by 490,000 below earlier projections. Enrollment in Healthy Families is still expected to increase by about 10% to 624,000 in 2003.

Enrollment by Region

The fourth section of this report presents information about HMO market share in six of the major sub-markets in the state. That comes out of the analysis of HMO market share and penetration that is presented here. Getting information on enrollment by plan and by geographic region is difficult here. California does not collect data from health plans on where their enrollees live. Some states, including Minnesota and Florida, require that information as part of their HMO annual statements. As the Department of Managed Health Care refines reporting requirements for HMOs, perhaps it will consider adding supplementary reports with that information. Other researchers collect that information from health plans, but have agreed not to disclose information on individual HMOs, which makes the information less useful and less interesting for analysis.

Information on enrollment in Medi-Cal and Medicare plans can be obtained at a plan and county level. For Medi-Cal enrollment, monthly reports from DMHC were used. These reports list enrollment by county and health plan, although they do not address the question of how to count lives that are in subcontract arrangements.

The Centers for Medicare and Medicaid Services (CMS) provides monthly and quarterly reports on enrollment in Medicare HMO plans. The monthly reports show enrollment by plan within each state. The quarterly reports show enrollment by plan and by county. The CMS reports do not report enrollment in counties where a health plan has very few enrollees, but that only affects a small number of enrollees. The CMS reports do not tie out to the state HMO filings, but the two reports come close. This analysis does not include some small demonstration projects in California, which account for only a few thousand lives.

Commercial enrollment is estimated using certain sources and assumptions. Data on enrollment by county and health plan was drawn from 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 analysis here and the exhibits are based on grouping the state's 58 regions into 14 health planning areas. The survey data were used to calculate what the percentage of each HMO's commercial enrollment was in each of those regions. That percentage was then applied to 2000 data on commercial enrollment. Assume, for example, that a certain HMO had 15% of its enrollment in Region 2 counties (Sacramento and surrounding areas) according to the survey and 100,000 commercial enrollees in the state in 2000. Multiplying 15% times 100,000 enrollees means that about 15,000 enrollees of that HMO are in Region 2.

Enrollment in limited license health plans is not included here, since that would count certain enrollees twice. (It can be argued that those enrollees should be subtracted from the first plan and reported in the name of the limited license plan. If a health plan has completely delegated a large bloc of enrollees to a limited license plan than that health plan has less market share and less market power, but there are good arguments against that position, too.) County population figures are taken from the 2000 U.S. census. The counties are grouped based on the 14 Health Service Area (HSA) regions used for state health planning. For ease of presentation in the tables, three regions in the Bay Area are combined; Los Angeles and Orange counties, which are separate HSAs, are likewise reported together. Aetna U.S. Healthcare and Prudential Health are grouped together in this analysis.

Getting information on enrollment by plan and by geographic region is difficult here. California does not collect data from health plans on where their enrollees live. Some states, including Minnesota and Florida, require that information as part of their HMO annual statements.

Penetration is lowest in the northern part of the state and in the central coast counties. Even then, it is above 30%, which is a higher penetration rate than many states.

Exhibit 13 and *Exhibit 14* display the results of this analysis. As we noted earlier, about 62% of the state's population are enrolled in an insured HMO plan. In three regions of Northern California (Sacramento, Napa-Sonoma, and the Bay Area) penetration is above 70%. Penetration is lowest in the northern part of the state and in the central coast counties. Even then, it is above 30%, which is a higher penetration rate than many states. In the central coast counties, the penetration rate has been elevated by the relatively recent enrollment of most Medi-Cal recipients into an HMO operated by a two-county partnership.

As shown in Exhibit 14, Kaiser Permanente is the largest HMO in seven of the regions, while Blue Cross is the largest plan in the other areas. In 2003, CalPERS will contract with two statewide plans (Kaiser Permanente and Blue Shield) and one or two regional plans (Western Health Advantage [Sacramento] and Universal Care [Orange County and San Diego]). This will result in a material shift of market share toward those plans.

HMO Profitability

California HMOs report their revenues and expenses on the old NAIC forms. Before presenting this analysis of HMO profitability, it is important to note some issues about those reports. HMOs file reports with their respective states based on statutory accounting rules, which differ from generally accepted accounting principles (GAAP). For example, states might require that certain investments be classified as long-term assets because they are not easily converted to cash. Under GAAP, the same investments might be classified as current assets.

In another example, concerns have been expressed about both GAAP and statutory accounting rules. If a company rewards executives and others with stock options, the value of those options is not considered as a compensation expense either under GAAP or under statutory accounting rules. Under the Internal Revenue Code, the value of the options is considered an expense in the year that the options are granted. Some managed care companies, such as WellPoint Health Networks and United HealthCare, make heavy use of stock options as part of their compensation packages. In a given year, they may give hundreds of millions of dollars in stock options. If that were reported as an expense, then the HMO would have much higher administrative costs and lower earnings.

Another issue arises with HMOs that have operations in multiple states or that operate affiliated insurance companies. The question there is whether or not the company's reports to individual state regulators are a complete picture of operations in that state. In those cases, the company can shift certain revenues and expenses from the HMO to the insurance company, from state to state or from state plan to corporate operations.

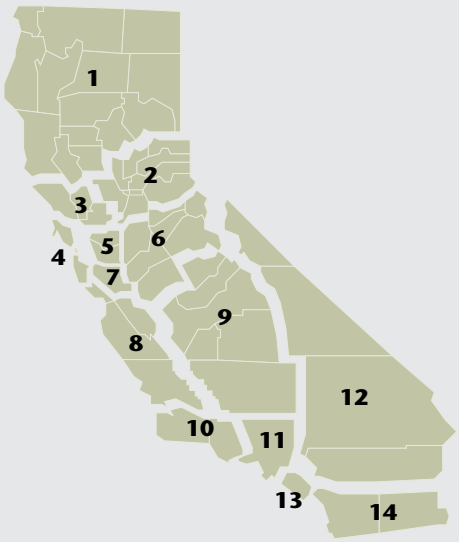
Having said all that, this analysis relies on these state reports. No other publicly available data source is better. *Exhibit 15* shows the profits and losses reported by California HMOs in 2000. The HMOs reported net profits after taxes of $966.5 million, or 2.3% on revenues of $42.7 billion. By comparison, California HMOs had 1999 profits of $810.8 million, or 2.2% of $37 billion.

As *Exhibit 16* shows, (page 33) a few HMOs have had consistently strong earnings in the past six years. PacifiCare saw a decline in its earnings in

Exhibit 13

Estimated Health Plan Enrollment and Penetration by Region, 2000

Region		Estimated HMO Enrollment	2000 Census Population	Estimated Penetration Rate
North	1	282,077	887,746	31.8%
Sacramento	2	1,500,392	2,031,594	73.9%
Napa-Sonoma	3	771,313	977,435	78.9%
Bay Area	4,5,7	4,191,360	5,806,325	72.2%
Sierra Nevada	6	739,923	1,352,512	54.7%
Central Coast	8	384,260	957,279	40.1%
Central Valley	9	1,067,844	2,098,773	50.9%
Santa Barbara	10	627,740	1,152,544	54.5%
Los Angeles-Orange	11,13	7,757,154	12,365,627	62.7%
Inland Empire	12	2,062,640	3,285,619	62.8%
San Diego	14	1,799,992	2,956,194	60.9%
	TOTAL	21,189,136	34,336,380	61.7%



Sources: Commercial enrollment is based on author's estimates that are based partly on the results of a survey of health plans in 1999 by the California Association of Health Plans. Medi-Cal enrollment based on monthly enrollment reports from the Department of Health Services. Medicare enrollment based on quarterly enrollment reports posted by Center for Medicare and Medicaid Services on www.hcfa.gov

Exhibit 14

Estimated HMO Enrollment by Region, 2000

HMO	North 1	Sacramento 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	2,206	18,769	18,452	288,628	23,943	17,393	25,244	42,225	339,639	142,006	109,604	1,028,108
Blue Cross	31,769	247,223	40,767	617,709	166,730	75,819	543,414	170,697	1,642,670	286,251	249,855	4,072,904
Blue Shield	56,411	206,928	37,930	509,680	117,448	49,969	70,506	92,735	486,070	244,424	159,938	2,032,040
CIGNA HealthCare	141	775	2,407	58,528	1,423	4,823	1,457	22,357	505,806	59,667	45,770	703,154
Health Net	30,880	262,582	49,615	263,324	65,224	42,226	89,532	104,833	836,586	146,663	129,781	2,021,245
Kaiser Foundation	137,712	583,087	411,929	1,686,764	142,802	16,819	147,291	54,099	1,776,356	548,013	540,305	6,045,176
PacifiCare	18,810	100,257	38,555	271,789	88,806	51,314	136,067	97,021	938,613	309,362	329,159	2,379,751
Care 1st Health Plan	0	0	0	0	0	0	0	0	222,590	0	0	222,590
Chinese Community Health Plan	0	0	0	5,451	0	0	0	0	0	0	0	5,451
Cohen Medical Corp (Tower Health)	0	0	0	0	0	0	0	0	90,172	25,857	0	116,029
Community Health Group	0	0	0	0	0	0	0	0	0	0	77,251	77,251
Community Health Plan	0	0	0	0	0	0	0	0	105,362	0	0	105,362
Contra Costa Health Plan	0	0	0	48,329	0	0	0	0	0	0	0	48,329
Health Plan of the Redwoods	3,242	0	75,897	3,195	0	0	0	0	0	0	0	82,335
Inter Valley Health Plan	0	0	0	147	0	0	0	238	33,681	34,822	19	68,907
Lifeguard	0	3,791	1,213	181,610	22,970	37,302	2,869	530	0	0	0	250,284
Maxicare	572	14,988	7,774	3,134	252	42	624	2,838	128,656	18,564	1,030	178,474
Molina Healthcare	0	15,398	14,206	0	0	0	36	0	103,177	63,324	0	196,141
National Med	228	0	0	118	43,913	0	41	0	197	118	0	44,615
On Lok Senior Health Plan	0	0	0	822	0	0	0	0	0	0	0	822
One Health Plan	107	1,916	4,318	33,404	131	1,602	1,126	1,223	34,423	5,511	3,745	87,507
SCAN Health Plan	0	0	0	0	0	0	0	0	38,755	10,835	0	49,590
Sistemas Medicos Nacionales											9,438	9,438
Sharp Health Plan	0	0	0	0	0	0	0	0	0	0	87,491	87,491
UC San Diego Health Plan	0	0	0	0	0	0	0	0	0	0	13,996	13,996
Universal Care	0	0	0	0	0	0	0	0	203,666	17,485	52,048	273,199
Valley Health Plan	0	0	0	32,522	0	0	0	0	0	0	0	32,522
Ventura County	0	0	0	0	0	0	0	10,182	0	0	0	10,182
WATTS Health Foundation (UHP Healthcare)	0	0	0	0	0	0	0	0	94,039	471	0	94,510
Western Health Advantage	0	44,676	20,011	0	0	0	0	0	0	0	0	64,687
County Health Plans												
Alameda Alliance for Health	0	0	0	75,609	0	0	0	0	0	0	0	75,609
CalOptima			0						188,832			188,832
Central Coast Alliance	0	0	0	0	0	86,953	0	0	0	0	0	86,953
Inland Empire Health Plan	0	0	0	0	0	0	0	0	0	149,268	0	149,268
Kern Health Systems	0	0	0	0	0	0	49,611	0	0	0	0	49,611
Partnership Health Plan	0	0	48,239	0	0	0	0	0	0	0	0	48,239
San Francisco Health Plan	0	0	0	31,949	13,371	0	26	0	0	0	0	45,346
San Joaquin County Health	0	0	0	0	52,910	0	0	0	0	0	0	52,910
San Mateo Health Commission	0	0	0	36,955	0	0	0	0	0	0	0	36,955
Santa Barbara County								1,302				1,302
Santa Clara County Health Authority	0	0	0	41,694	0	0	0	27,460	0	0	0	69,154
TOTAL	285,308	1,509,434	715,127	4,176,141	726,552	384,260	1,067,818	600,280	7,757,154	2,062,640	1,799,992	21,084,708

Exhibit 15

Profits and Losses for California HMOs, 2000

HMO	Revenue	Profit (Loss) Pre-Tax	Taxes Paid	Net Income After Tax	Margin	Profit (Loss) Per-Member Per-Month	Cumulative Profits (Losses) 1996-2000
Aetna U.S. Healthcare	1,361,222,108	(4,782,542)	(1,794,454)	(2,988,088)	-0.2%	(0.43)	65,248,498
Blue Cross	6,374,868,000	594,540,000	244,955,000	349,585,000	5.5%	7.86	1,396,478,000
Blue Shield	3,526,563,000	(18,781,000)	(3,248,000)	(4,106,000)	-0.1%	(0.17)	94,071,566
CIGNA Health	1,148,563,458	24,463,535	6,755,424	17,708,111	1.5%	2.16	95,684,668
Health Net	3,981,586,652	266,339,735	109,672,586	156,667,148	3.9%	5.99	399,203,909
Kaiser Foundation Health Plan	13,332,161,000	162,933,000	0	162,933,000	1.2%	2.25	386,264,000
PacifiCare	6,614,591,420	255,639,143	104,695,491	150,943,652	2.3%	5.48	890,276,403
Prudential Health	615,801,732	46,159,265	18,354,608	27,804,657	4.5%	7.72	(18,664,688)
Care 1st	71,502,238	1,563,420	605,272	958,148	1.3%	1.08	(941,883)
Chinese Community	18,059,093	244,973	50,447	194,526	1.1%	2.51	1,102,532
Cohen Medical Corp	94,409,973		0	5,753,159	6.1%	5.16	19,264,105
Community Health Group	76,417,555	3,259,792	0	3,259,792	4.3%	3.65	12,626,624
Community Health Plan	104,471,937	3,510,588	0	3,510,588	3.4%	2.87	9,685,103
Health Plan of the Redwoods	178,450,375	(4,474,417)	0	(4,474,417)	-2.5%	(4.21)	(26,894,838)
Inter Valley Health Plan	185,815,732	1,107,860	0	1,107,860	0.6%	1.60	(360,302)
Lifeguard	421,821,320	(9,522,753)	(2,165,000)	(7,357,753)	-1.7%	(2.57)	(2,057,067)
Maxicare	376,709,145	(7,256,155)	0	(7,256,155)	-1.9%	(2.18)	6,431,921
Molina	208,680,735	22,139,656	8,893,040	13,845,616	6.6%	6.36	27,163,899
National Med	131,798,058	(11,018,224)	(4,130,146)	(6,888,078)	-5.2%	(11.24)	(14,652,085)
On Lok Senior Health	43,587,522	5,288,391	0	5,288,391	12.1%	533.16	5,991,927
One Health	150,746,008	29,090,603	10,188,211	18,902,392	12.5%	24.45	62,047,195
SCAN Health Plan	346,370,856	6,921,475	0	6,921,475	2.0%	15.53	15,335,726
Sharp Health Plan	96,433,465	(375,568)	0	(375,568)	-0.4%	(0.43)	582,384
SIMNSA	1,772,938	295,828	81,235	214,593	12.1%	7.95	214,593
UC San Diego Health Plan	29,689,745	(1,865,942)	0	(1,865,942)	-6.3%	(19.01)	(6,983,655)
Universal Care	282,151,447	4,910,339	0	2,814,758	1.0%	1.07	4,692,110
Valley Health	38,948,017	936,643	0	936,643	2.4%		936,643
Ventura County	10,205,279	36,055	0	36,055	0.4%	0.42	119,014
Watts Health	207,707,000	(7,985,000)	0	(7,985,000)	-3.8%	(6.33)	(8,576,000)
Western Health Advantage	59,732,123	(459,481)	0	(459,481)	-0.8%	(1.16)	(6,953,257)
County Sponsored Plans							
Alameda Alliance for Health	100,418,593	13,949,940	0	13,949,940	13.9%	15.14	57,409,314
Central Coast Alliance	1,413,561	-	0	269,850	19.1%	0.37	6,256,625
Contra Costa Health Plan	91,528,124	223,390	0	223,390	0.2%	0.35	1,948,662
Inland Empire Health Plan	199,012,773	4,502,364	0	4,502,364	2.3%	2.73	10,134,158
Kern	61,777,420	9,562,096	0	9,562,096	15.5%	15.87	41,820,006
L.A. Care (Local Initiative Health Authority)	655,240,186	4,378,637	0	4,378,637	0.7%	0.61	12,620,879
Optima	584,168,598	35,029,460	0	35,029,460	6.0%	12.95	35,029,460
San Francisco Health Plan	37,678,907	1,080,468	0	1,080,468	2.9%	3.75	5,033,319
San Joaquin County Health	61,463,430	7,233,783	0	7,233,783	11.8%	10.66	25,813,287
San Mateo	86,252,082	(6,523,211)	0	(6,523,211)	-7.6%	(14.06)	(6,443,241)
Santa Barbara	522,170	345,846	0	345,846	66.2%	20.31	345,846
Santa Clara County Health Authority	55,588,970	6,505,282	0	5,005,282	9.0%	9.80	2,194,112
Limited License Plans							
Concentrated Care	4,380,873	1,095,245	0	1,095,245	25.0%	49.48	3,431,345
Heritage Provider Network	248,670,170	263,908	79,627	184,281	0.1%	0.11	646,716
PrimeCare Medical Network	212,199,568	2,080,954	789,929	1,291,025	0.6%	0.49	(1,308,072)
Priority Plus	65,901,992	3,039,902	0	3,039,902	4.6%	2.69	514,192
ProMed	8,593,384	(372,745)	0	(368,163)	-4.3%	(2.65)	(368,163)
Scripps Clinic Health Plan Services	178,582,510	883,886	300,377	583,509	0.3%		583,509
TOTAL	42,744,231,242	1,446,138,424	494,083,647	966,512,786	2.3%	3.73	3,584,414,151

Source: Author's analysis of HMO annual statements, Report #2, Statement of Revenues, Expenses and Net Worth

2000, after increasing its profits in the previous three years. The top line of the chart shows the results for all HMOs. Even as some plans lost money, the industry overall has increased its profits for the past three years.

Taxes are significant—HMOs paid $494 million in taxes on their 2000 earnings. Most of that was paid by three companies: Blue Cross, Health Net, and PacifiCare. Those three companies had profits before taxes of more than $1 billion, and then paid taxes of $459 million. As a percentage of revenues, Blue Cross was the most profitable of the large companies, with profits of $349.6 million or 5.5% of revenues. Kaiser Permanente had 2000 profits of $163 million, and does not pay taxes. Among mid-sized plans, One Health and Molina Healthcare were the most profitable in 2000.

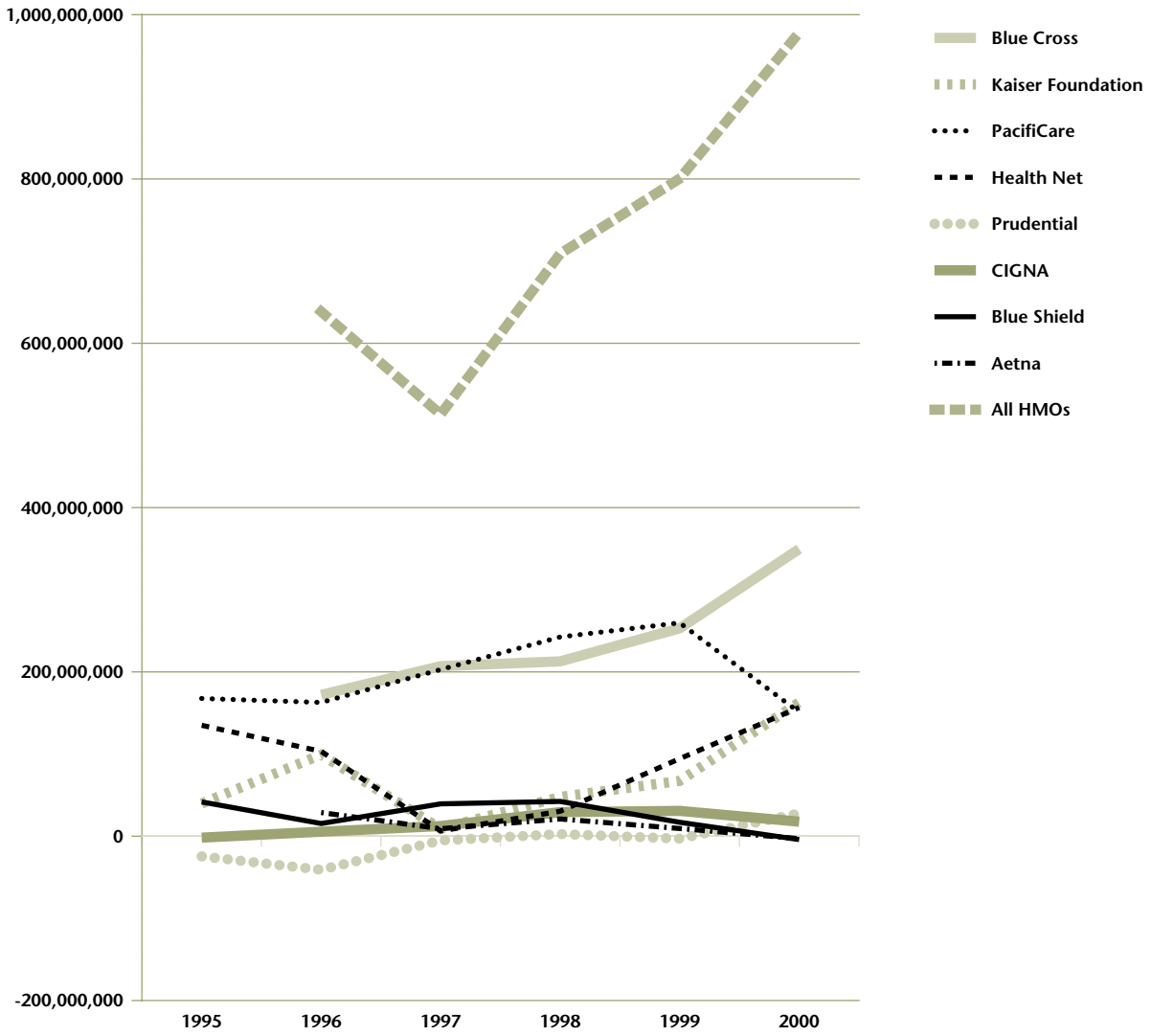
Two large HMOs, Aetna U.S. Healthcare and Blue Shield, reported losses in 2000. Both of them posted modest profits in 1999. Overall, 11 HMOs reported losing money in 2000. Investment income is also an important revenue source. HMOs reported $292 million in investment income in 2000. Kaiser Permanente had about $86 million in investment income, which is a lot but only half as much as it reported in 1999.

All but one of the county-sponsored HMOs made money in 2000, and a few of them had very strong profits. Four of the established county plans had profit margins over 5%. Having said that, the county plans are likely to need their reserves in the next two years as the state tries to bring its budget back into balance. County health plans will no doubt have to absorb budget cuts during that time to help the state balance its books and will appreciate having a cushion of reserves from previous years' profits. The Medi-Cal plan operated by Santa Barbara County came dangerously close to failing last year, but was able to obtain a rescue package from the California State Assembly. Still that underlined the question of whether counties might face future liabilities for losses by those health plans.

The county plans are likely to need their reserves in the next two years as the state tries to bring its budget back into balance. County health plans will no doubt have to absorb budget cuts during that time to help the state balance its books and will appreciate having a cushion of reserves from previous years' profits.

Exhibit 16

Profits and Losses of Largest California HMOs, 1995-2000



HMO Profitability

Overall how much did HMOs make in 2000? What percentage is that of total revenues?

California	$966,512,786 2.3%
Colorado	($27,171,791) -0.8%
Florida	($109,655,832) -0.9%
Illinois	$16,820,173 0.5%
Michigan	$51,460,278 0.9%
Minnesota	$72,837,369 2.2%
Ohio	($41,178,405) -0.9%
Texas	($542,135,591) -6.7%

The results for the second quarter of 2001 suggest that the year may end up weaker than in 2001. *Exhibit 17* shows that the HMOs reported after tax profits of $109 million in that quarter. While a single quarter does not determine the entire year, Blue Shield and Aetna U.S. Healthcare again reported losses. Maxicare showed a loss of almost $20 million in what turned out to be its last full quarter. PacifiCare had a profit, though smaller than in the past. Its earnings have been under pressure as it seeks to reduce its reliance on its Medicare products. In 2000, 58% of PacifiCare's California revenues came from Medicare plans.

Exhibit 17

Profits and Losses for California HMOs, Second Quarter of 2001

HMO	Net Income/Loss	Margin
Aetna U.S. Healthcare	(3,496,028)	-0.8%
Blue Cross	83,284,000	4.7%
Blue Shield	(7,136,000)	-0.7%
CIGNA	(1,471,875)	-0.5%
Health Net	20,054,305	1.7%
Kaiser Health Plan	31,319,000	0.8%
PacifiCare	7,069,073	0.4%
Prudential Health	4,216,327	11.7%
Care 1st	224,867	1.0%
Chinese Community Health Plan	153,319	2.2%
Cohen Medical Corp	(84,993)	-0.3%
Community Health Group	891,086	4.1%
Community Health Plan	(2,204,842)	-6.4%
Health Plan of the Redwoods	(651,611)	-1.4%
Inter Valley Health Plan	80,268	0.2%
Lifeguard	(3,769,085)	-3.2%
Maxicare	(19,444,879)	-19.0%
Molina Healthcare	2,874,123	4.3%
National Med	(1,513,978)	-5.7%
On Lok Senior Health Services	1,811,625	11.5%
One Health	(2,743,816)	-4.5%
Scan Health Plan	(799,852)	-0.6%
Sharp Health Plan	(690,358)	-2.3%
UC San Diego Health Plan	624,895	18.1%
Universal Care	(3,564,206)	-3.8%
Valley Health Plan	965,877	8.3%
Watts Health	(541,000)	-1.0%
Western Health Advantage	(121,760)	-0.5%
County Plans and Systems		
Alameda Alliance for Health	(15,405,883)	-60.9%
Central Coast Alliance	203,902	0.5%
Contra Costa Health Plan	(15,654)	-0.1%
Inland Empire Health Plan	2,502,752	4.4%
Kern	1,996,701	10.8%
L.A. Care (Local Initiative Health Authority)	3,515,695	1.7%
Optima (Orange County)	4,098,733	2.4%
San Francisco Health Plan	129,736	1.1%
San Joaquin County Health	454,521	2.7%
San Mateo County	(2,897,135)	-12.5%
Santa Barbara Regional Health Authority	121,841	45.1%
Santa Clara County Health Authority	10,704,279	91.6%
Ventura County	70,729	2.3%
Limited License Plans		
Cedars-Sinai Provider Plan	49,528	35.1%
Concentrated Care	268,570	98.4%
Heritage Provider Network	(2,741,424)	-4.1%
PrimeCare Medical Network	493,142	0.9%
ProMed Health Care Administrators	215,742	6.8%
Scripps Clinic Health Plan Services	107,175	0.1%
TOTAL	109,207,432	0.9%

Premium Revenue Trends

HMO premiums in California have historically been lower than in comparison states. The adequacy of premiums is a major sticking point as providers say that their capitation rates are inadequate to support high quality care, but employers resist premium increases. As in last year's report, this section presents an analysis of premium revenue trend for commercial HMOs in California. The amount of commercial premium revenue for each HMO is converted to a per-member per-month basis. That is then compared to other HMOs in the state and to the results from previous years.

This is a measure of revenue yield, different from surveying employers or examining rate filings to determine what the sticker price is for health benefits. Because the annual statements in California do not separate out revenues for different lines of business, it is not clear if all premium revenues reported are for commercial business. If an HMO has self-funded lives, there may also be a question about the number of member months to use in the calculation.

As shown in *Exhibit 18*, the average commercial premium revenue, per-member per-month, increased by about 9.6% in 2000, from $120.49 to $132.11. That comes on top of an increase of 7.5% in 1999. Among the largest plans, Blue Cross reported an increase of 9% while Kaiser Permanente had increased premium revenues of 9.7%. Both of them are slightly above the average for the state, which was $132 in 2000. PacifiCare had a smaller increase in 2000 and its average premium revenue is about $124, below the state average.

Based on the author's analysis of premium revenue trends in other states, California continues to lag behind, both in average premiums and in the growth trend. *Exhibit 19* compares the premium trend for commercial plans in California and seven other states. This analysis does not adjust for differences in demographics or in benefit design. For example, if standard benefit plans involve more enrollee cost-sharing in some states that may result in lower commercial premium revenues.

In 2000, California HMOs had the lowest average premium revenues for commercial enrollees. Other states showed higher average revenues and most of them showed a higher rate of increase. Minnesota remains above the average for the group, with average premium revenue of $166.23 per-member per-month, an increase of 13% over 1999. Data for Minnesota for 2001 just became available, and show an increase of 14.3% to an average premium of $190.20. Three large HMOs dominate the market in Minnesota, and this level of market concentration and the lack of competition have driven the premium revenue trend higher and higher.

Available data also show that utilization rates are significantly higher in Minnesota than in California. For example, 2000 HEDIS data (described at the end of this section) show that the average inpatient utilization rates for commercial HMOs was 200 days per 1,000 enrollees in Minnesota and only 142 days in California. By design or by necessity, health plans and provider organizations in California have combined to hold down premium increases and utilization rates more effectively than their counterparts in other states. Not all would

Exhibit 18

California HMO Commercial Premium Revenue, Per-Member Per-Month, 1997-2000

HMO	1997	1998	1999	2000	Increase
Aetna U.S. Healthcare	112.93	112.53	115.44	124.36	7.7%
Blue Cross	108.25	112.91	121.77	132.68	9.0%
Blue Shield	104.23	108.43	117.86	137.49	16.7%
Health Net	111.08	116.74	124.91	133.10	6.6%
Kaiser Permanente	112.54	112.61	122.07	133.96	9.7%
PacifiCare	135.37	109.99	116.74	123.58	5.9%
Prudential Health Care	109.74	111.68	117.43	137.22	16.9%
Chinese Community Health Plan	125.66	135.55	117.44	124.99	6.4%
Health Plan of the Redwoods	108.75	113.19	120.20	131.44	9.4%
Inter Valley Health Plan	95.78	93.78	96.09		
Lifeguard	114.20	119.38	124.26	137.42	10.6%
Maxicare	95.94	97.35	103.70		
National Med	105.44	102.59	107.35	113.63	5.8%
One Health Plan	117.08	132.78	153.23	142.08	-7.3%
Sharp Health Plan	133.88	103.85	107.49	107.53	0.0%
Universal Care	86.69	65.41	86.93	95.65	10.0%
Western Health Advantage	-	149.19	103.36	111.84	8.2%
TOTAL	111.91	112.00	120.49	132.11	9.6%

Source: Author's analysis of HMO annual statements, Reports #2 and #4.

Premium Revenue Trend

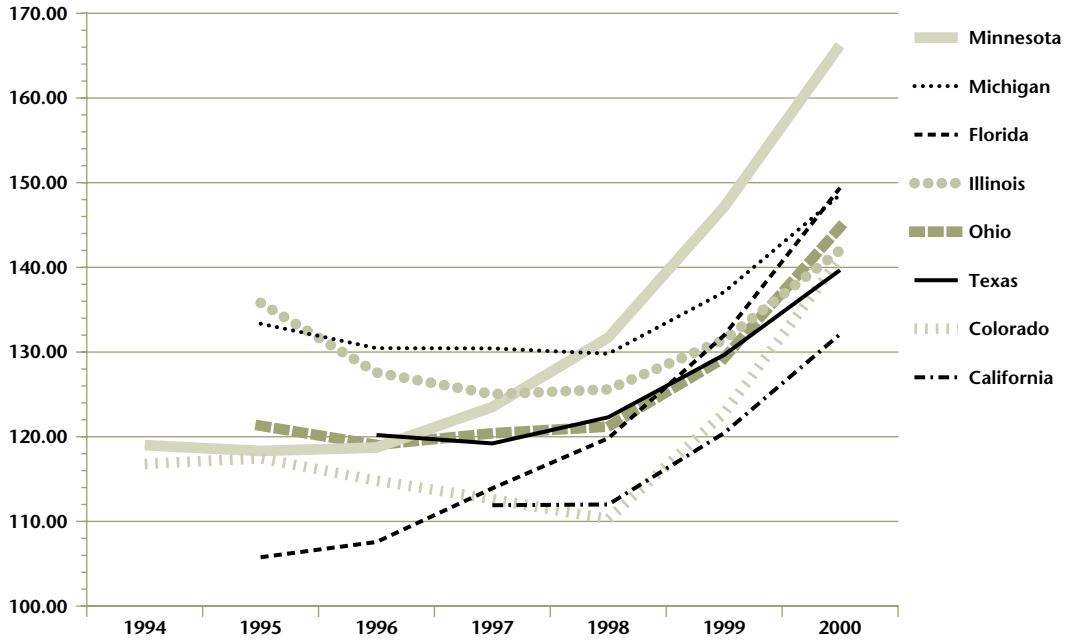
What is the average commercial premium revenue, per member per month, in 2000 and how much did that increase over 1999?

California	$132.11 9.6%
Colorado	$141.10 14.9%
Florida	$149.39 13.7%
Illinois	$142.01 8.0%
Michigan	$148.57 8.4%
Minnesota	$166.23 13.0%
Ohio	$144.73 11.9%
Texas	$139.68 7.7%

Compared to seven other states, in 2000, California HMOs had the lowest average premium revenues for commercial enrollees. Other states showed higher average revenues and most of them showed a higher rate of increase.

Exhibit 19

HMO Commercial Premium Revenue Trends in California and Selected States



agree that the result is completely desirable, but the differences between California and the other states are remarkable.

Because it organizes benefits for so many people, CalPERS is sometimes viewed as a bellwether for premium trends. As shown in *Exhibit 20*, family premiums for CalPERS participants selecting HMO plans increased between 1% and 7.7% for 2002. Those increases were moderated by an increase in certain co-payments. In the previous section, it was noted that CalPERS will pay an average of 25% more in 2003 for the five HMOs with which it will contract. Some of that will be passed on to employees in the form of additional premium contributions.

The bad news is that employers and consumers will pay much more for their health insurance in the next few years. In interviews with employers, their main concern is that there seems to be no end in sight to double-digit premium increases. The good news, if there is any, is that the premium increases have given Wall Street analysts a much more positive view of the managed care industry. If a huge purchaser like CalPERS can be made to grant such large increases, then health plans should be able to gain significant premium increases from their other customers.

Exhibit 20

Family Premiums for Active CalPERS Participants in HMO and PPO Plans, 1996-2002

Health Plan	1996	2000	2001	2002	Increase 1996-2002	Average annual Increase
HMOs						
Aetna U.S. Healthcare	406.80	464.46	504.40			
Blue Shield HMO	406.00	479.87	523.04	563.32	7.7%	6.5%
CIGNA	398.06	448.48	481.78			
Health Plan of the Redwoods	395.00	476.83	517.84	537.11	3.7%	6.0%
Health Net	384.80	469.67	512.88	534.25	4.2%	6.5%
Kaiser Permanente	393.94	478.56	525.75	563.32	7.1%	7.2%
Lifeguard	413.91	507.81	558.08			
Maxicare	390.00	431.60	460.33			-16.7%
PacifiCare	407.60	453.73	489.24	534.25	9.2%	5.2%
Universal Care		419.87	434.15	438.39	1.0%	2.2%
PPO Plans						
PERS Care	666.00	764.00	892.00	1,167.00	30.8%	12.5%
PERS Choice	408.00	452.00	556.00	647.00	16.4%	9.8%
State Employer Contribution	410.00	452.00	452.00	452.00	0.0%	1.7%

Through 1997, Kaiser Permanente set slightly different rates in northern California and in southern California.

Medical Loss Ratios

HMOs increase premiums so that they can maintain a profit margin over their cost of health care claims and administration. As health care costs increase, they try to add premium revenues to keep up.

In their annual and quarterly statements, California HMOs divide their expenses into two main categories, Medical-Hospital and Administration. The medical loss ratio is a commonly used comparison of health plans. It is calculated as the total amount of Medical-Hospital expenses (for the entire plan) divided by all premium revenues. Investment income is not included in the calculation. *Exhibit 21* compares California HMOs on their medical loss ratios for the past four years. The average in 2000 was 88.2%, up a little from 87.8% in 1999. Because premium revenues have grown, that means that health care expenses are growing at a similar rate.

The bad news is that employers and consumers will pay much more for their health insurance in the next few years. In interviews with employers, their main concern is that there seems to be no end in sight to double-digit premium increases. The good news, if there is any, is that the premium increases have given Wall Street analysts a much more positive view of the managed care industry.

Exhibit 21

Medical Loss Ratios for California HMOs (Entire Plan), 1997-2000

HMO	1997	1998	1999	2000
Aetna U.S. Healthcare	89.3%	86.4%	87.0%	88.5%
Blue Cross of California	76.5%	77.9%	77.4%	76.4%
Blue Shield	78.7%	81.5%	84.0%	84.5%
CIGNA HealthCare	85.4%	83.5%	82.5%	82.7%
Health Net	85.9%	87.9%	86.4%	84.6%
Kaiser Foundation	96.3%	97.9%	96.4%	96.3%
PacifiCare	84.5%	84.3%	84.7%	88.1%
Prudential Health Care	85.5%	88.0%	87.6%	81.7%
Care 1st Health Plan	75.5%	82.8%	84.6%	86.0%
Chinese Community Health Plan	76.4%	80.0%	80.9%	81.0%
Community Health Group	78.1%	78.1%	86.1%	81.6%
Community Health Plan	93.6%	93.6%	92.8%	89.5%
Health Plan of the Redwoods	99.2%	89.7%	89.0%	89.7%
Inter Valley Health Plan	87.0%	88.6%	88.2%	87.8%
Lifeguard	93.8%	85.0%	84.2%	85.3%
Maxicare	91.9%	88.6%	89.3%	89.6%
Molina Healthcare	93.2%	87.9%	80.5%	77.8%
National Med	92.0%	93.1%	90.8%	99.2%
On Lok Senior Health			87.5%	83.2%
One Health Plan	73.9%	65.0%	54.5%	68.4%
Scan Health Plan	79.6%	79.2%	81.2%	84.8%
Sharp Health Plan	85.5%	87.3%	91.4%	92.1%
SIMNSA				61.5%
UC San Diego Health Plan			85.5%	92.5%
Universal Care	86.7%	88.9%	89.2%	88.2%
Valley Health Plan				87.6%
WATTSHealth Foundation	77.6%	82.1%	82.5%	86.3%
Western Health Advantage	88.0%	86.1%	84.3%	84.7%
County Health Plans				
Alameda Alliance for Health	71.7%	71.7%	79.3%	78.0%
CalOptima				90.0%
Central Coast Alliance	86.3%			90.8%
Contra Costa County Medical Services	93.3%	93.6%		91.6%
Inland Empire Health Plan	84.3%	85.8%	89.3%	90.4%
Kern Health Systems	72.9%	72.8%	67.9%	76.9%
L.A. Care	85.1%	93.9%	94.7%	95.2%
San Francisco Health Plan	87.4%	84.0%	86.8%	88.4%
San Joaquin County Health	79.4%	75.3%	79.4%	79.2%
San Mateo Health Commission		92.3%	81.5%	98.7%
Santa Clara County Health Authority	87.4%	84.1%		75.2%
Ventura County	95.3%	89.2%	89.3%	89.8%
Limited License Plans				
Heritage Provider Network	84.9%	93.7%	93.7%	96.7%
PrimeCare Medical Network	97.5%	91.6%		96.6%
Scripps Clinic Health Plan Services				96.5%
TOTAL	87.6%	88.4%	87.8%	88.2%

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

The average medical loss ratio in 2000 was 88.2%, up a little from 87.8% in 1999. Because premium revenues have grown, that means that health care expenses are growing at a similar rate.

Among the largest plans, Blue Cross has consistently reported medical loss ratios in the mid-70s, which has contributed to its strong profitability. Based on the way it allocates expenses, Kaiser Permanente reports a very high medical loss ratio. PacifiCare and Blue Shield have seen their profits decrease in the past two years as their medical loss ratio decreases. Four of the county-sponsored Medi-Cal plans have medical loss ratios below 80%.

Capitation Payments

The use of capitation payments as part of the delegated model was described earlier in this report. Prior to 2002, California did not collect a specific report about the use of capitation payment arrangements. The new report forms to be used beginning in 2002 will gather that information. It is possible to use the information on a different reporting form to calculate amounts paid in capitation. A supplementary form is used to calculate how much each HMO is required to have in Tangible Net Equity (TNE). The formula incorporates a calculation of capitation amounts. If an HMO shift a large amount of risk to providers through capitation, it needs less equity or reserves. The opposite is also true.

Using the information from those forms, *Exhibit 22* compares selected HMOs on their use of capitation in 2000. The report form divided capitation payment into two categories: capitation (usually of physicians) and managed hospital expense, in which risk is shifted to hospitals. On average, the HMOs here paid about 45% of all Medical-Hospital expenses through capitation payments. In addition, they paid about 15% in managed hospital arrangements. In all, they paid about 60% through one form of capitation or another.

Of the largest HMOs, PacifiCare makes the most use of capitation arrangements. It reported 92% of medical expenses paid through capitation and managed hospital arrangements. Health Net pays almost 80% through those arrangements. Blue Cross, on the other hand, pays less than 20% of its medical expenses through capitation.

Administrative Expenses

The other major expense category is administration. That includes compensation, marketing, and property expense. Depending on how the health plan chooses to allocate its expenses, it may or may not include the cost of information systems or

Exhibit 22

Use of Capitation by Selected California HMOs, 2000

HMO	Health Care Expense	Capitation Expense	Managed Hospital Expense*	Non-Capitated, Non-Managed Hospital	% in Capitation	% in Capitation and Managed Hospital
Aetna U.S. Healthcare	1,197,662,623	1,143,645,511		54,017,112	95.5%	95.5%
Blue Cross of California	4,858,784,000	957,109,000		3,901,675,000	19.7%	19.7%
Blue Shield of California	2,947,606,000	820,231,000		2,127,375,000	27.8%	27.8%
CIGNA HealthCare	943,519,779	454,392,704	146,866,150	342,260,925	48.2%	63.7%
Health Net	3,330,766,587	1,958,989,037	698,691,725	673,085,825	58.8%	79.8%
Kaiser Foundation	12,750,822,000	4,175,592,325	3,469,660,000	5,105,569,675	32.7%	60.0%
PacifiCare	5,794,445,376	4,670,140,788	645,013,700	479,290,888	80.6%	91.7%
Prudential Health Care	491,403,876	228,147,954		263,255,922	46.4%	46.4%
Care 1st Health Plan	60,822,963	20,676,763	1,331,675	38,814,525	34.0%	36.2%
Chinese Community Health Plan	14,512,757	0		14,512,757	0.0%	0.0%
Community Health Group	61,071,371	23,829,396	13,607,100	23,634,875	39.0%	61.3%
Community Health Plan	91,593,136	72,993,174	2,164,075	16,435,888	79.7%	82.1%
Health Plan of the Redwoods	159,389,885	99,607,035		59,782,850	62.5%	62.5%
Lifeguard	356,549,833	9,299,753		347,250,080	2.6%	2.6%
Molina Healthcare	160,976,186	98,550,311		62,425,875	61.2%	61.2%
National Med	129,437,188	72,725,333	33,836,775	22,875,080	56.2%	82.3%
One Health Plan	100,369,613	33,962,251	16,302,850	50,104,512	33.8%	50.1%
Sharp Health Plan	88,289,502	46,796,965	18,795,100	22,697,438	53.0%	74.3%
Universal Care	248,926,243	221,379,131		27,547,113	88.9%	88.9%
WATTSHealth Foundation (UHP Healthcare)	178,258,000	84,408,000	13,725,000	80,125,000	47.4%	55.1%
Western Health Advantage	50,495,624	40,080,537		10,415,088	79.4%	79.4%
TOTAL	34,015,702,542	15,232,556,966	5,059,994,150	13,723,151,426	44.8%	59.7%

*Some HMOs report managed hospital expenses separately from capitation payments.
Source: Author's analysis of HMO annual statements, "Knox Keene Supplemental Information Pursuant to Sections 1300.84.06 and 1300.84.2"

utilization management staff and programs. *Exhibit 23* compares California HMOs on three measures of administrative costs: administration as a percentage of total revenues (including investment income), as a percentage of total expenses, and as a per-member per-month amount.

During 2000, HMOs reported spending $3.9 billion in administrative costs. On average, they spent 9% of revenues, 9.4% of expenses and $14.23 per-member per-month on administrative expenses. By comparison, the average expense per-member per-month was $13.72 in 1999. Kaiser Permanente reported very low administrative expenses. PacifiCare's administrative costs are low as a percentage of revenues and expenses, because so much of its revenue comes from Medicare

Of the largest HMOs, PacifiCare makes the most use of capitation arrangements. It reported 92% of medical expenses paid through capitation and managed hospital arrangements. Blue Cross, on the other hand, pays less than 20% of its medical expenses through capitation.

Exhibit 23

Administrative Expenses for California HMOs (Entire Plan), 2000

HMO	Administration Expense	As a % of Revenues	As a % of Expenses	Per Member Per Month
Aetna U.S. Healthcare	168,342,027	12.4%	12.3%	20.06
Blue Cross	911,544,000	14.3%	15.8%	18.93
Blue Shield	597,738,000	16.9%	16.9%	22.92
CIGNA Health	180,580,144	15.7%	16.1%	21.74
Health Net	384,480,330	9.7%	10.3%	14.70
Kaiser Health Plan	418,406,000	3.1%	3.2%	5.68
PacifiCare	564,506,901	8.5%	8.9%	19.69
Prudential Health	78,238,591	12.7%	13.7%	8.54
Care 1st	9,115,855	12.7%	13.0%	11.11
Chinese Community Health Plan	3,301,363	18.3%	18.5%	39.54
Community Health Group	12,086,392	15.8%	16.5%	13.52
Community Health Plan	9,369,213	9.0%	9.3%	7.36
Concentrated Care Inc.	210,484	4.8%	6.4%	3.76
Health Plan of the Redwoods	23,534,907	13.2%	12.9%	23.13
Inter Valley Health Plan	21,618,506	11.6%	11.7%	27.30
Lifeguard	74,794,240	17.7%	17.3%	25.52
Maxicare	46,359,063	12.3%	12.1%	14.86
Molina Healthcare	25,564,893	12.3%	13.7%	11.10
National Med	13,379,094	10.2%	9.4%	23.07
On Lok Senior Health	2,577,178	5.9%	6.7%	259.82
One Health	21,285,792	14.1%	17.5%	20.93
SCAN Health Plan	47,298,186	13.7%	13.9%	93.63
Sharp Health Plan	8,519,531	8.8%	8.8%	8.39
SIMNSA	386,408	21.8%	26.2%	2.12
UC San Diego Health Plan	4,376,158	14.7%	13.9%	23.16
Universal Care	28,314,865	10.0%	10.2%	8.81
Valley Health Plan	4,245,846	10.9%	11.2%	10.38
Watts Health	37,434,000	18.0%	17.4%	32.51
Western Health Advantage	9,695,980	16.2%	16.1%	18.31
County Health Plans				
Alameda Alliance for Health	8,187,711	8.2%	9.5%	9.14
CalOptima	30,931,031	5.3%	5.6%	11.43
Central Coast Alliance	8,474,163	5.9%	6.1%	11.65
Contra Costa Health Plan	8,146,779	8.9%	8.9%	12.88
Inland Empire Health Plan	15,399,015	7.7%	7.9%	7.08
Kern Health Systems	6,887,741	11.1%	13.2%	11.41
L.A. Care	32,191,954	4.9%	4.9%	4.50
San Francisco Health Plan	4,027,924	10.7%	11.0%	11.80
San Joaquin County Health	6,944,522	11.3%	12.8%	10.60
San Mateo Health Commission	10,356,941	12.0%	11.2%	22.32
Santa Clara County Health Authority	7,460,992	13.4%	15.2%	14.27
Ventura County	1,111,113	10.9%	10.9%	14.01
Limited License Plans				
Heritage Provider Network	11,647,717	4.7%	4.7%	7.06
PrimeCare Medical Network	5,389,160	2.5%	2.6%	2.03
Scripps Clinic Health Plan Services	5,476,731	3.1%	3.1%	2.95
TOTAL	3,869,937,441	9.0%	9.4%	14.23

Source: Author's analysis of HMO annual statements, Report #2

Net Worth

On average, how many months of net worth do HMOs have in these states?

California	1.22 months
Colorado	1.03 months
Illinois	0.61 months
Michigan	1.07 months
Minnesota	1.71 months
Ohio	0.85 months
Texas	0.54 months

enrollees, whose average monthly premium is three times the commercial rate. On a per-member per-month basis, its administrative costs are above the average. Except for Health Net, the large plans all reported administrative costs that were higher than the average. Because those plans are evaluated by Wall Street analysts on how low their medical loss ratio is, they may have incentives to try to shift certain costs into the administrative cost category.

Exhibit 24

California HMO Net Worth, 1999-2000

HMO	1999 Net Worth	2000 Net Worth	Change	Weeks of Net Worth	Net Worth Per Enrollee
Aetna U.S. Healthcare	50,558,577	50,366,072	-192,505	1.92	67.92
Blue Cross of California	761,276,000	875,430,000	114,154,000	7.88	211.09
Blue Shield	546,650,000	546,892,000	242,000	8.02	270.82
CIGNA Healthcare	56,486,674	61,046,129	4,559,455	2.82	86.84
Health Net	414,251,541	467,790,147	53,538,606	6.55	228.47
Kaiser Foundation	1,218,594,000	1,306,585,000	87,991,000	5.16	216.22
PacifiCare	243,430,709	239,753,607	-3,677,102	1.96	100.87
Prudential Health Care	55,042,469	45,348,156	-9,694,313	4.14	151.17
Care 1st Health Plan	5,924,910	6,883,057	958,147	5.12	32.71
Chinese Community Health Plan	2,771,590	2,966,116	194,526	8.66	544.14
Cohen Medical Corp	15,234,513	0	-15,234,513		-
Community Health Group	15,423,170	18,682,962	3,259,792	13.28	
Community Health Plan		17,021,620	17,021,620	8.77	220.34
Health Plan of the Redwoods	12,917,678	8,443,259	-4,474,419	2.40	102.77
Inter Valley Health Plan	3,568,353			-	-
Kern Health Systems	31,241,789	40,803,885	9,562,096	40.64	785.58
Lifeguard	45,741,251	40,033,021	-5,708,230	3.20	
Maxicare	10,073,040	0	-10,073,040	-	-
Molina Healthcare	20,645,424	22,677,017	2,031,593	6.32	110.19
National Med	13,229,128	16,069,876	2,840,748	5.85	350.38
On Lok Senior Health	0	18,733,336	18,733,336	25.43	21,707.23
One Health Plan	30,086,498	34,743,131	4,656,633	14.85	397.03
SCAN Health Plan	11,882,699	18,804,174	6,921,475	2.88	407.96
Sharp Health Plan	3,471,870	3,143,257	-328,613	1.69	35.58
SIMNSA Health Plan		1,762,726	1,762,726	62.05	
UC San Diego Health Plan	1,989,726	2,123,784	134,058	3.50	135.54
United HealthCare	17,314,517	0			
Universal Care	8,449,078	11,136,237	2,687,159	2.09	40.41
Valley Health Plan		2,599,292	2,599,292	3.56	79.92
WATTSHealth Foundation	19,652,000	11,480,000	-8,172,000	2.77	121.94
Western Health Advantage	996,698	1,433,112	436,414	1.24	28.93
County Health Plans					
Alameda Alliance for Health	42,226,650	46,677,733	4,451,083	28.07	624.96
CalOptima		115,131,063	115,131,063	10.90	609.70
Central Coast Alliance	0	19,163,719	19,163,719	7.19	292.33
Contra Costa Health Plan	4,808,359	5,044,765	236,406	2.87	96.61
Inland Empire Health Plan	9,933,437	14,435,801	4,502,364	3.86	80.10
L.A. Care	11,507,352	15,885,989	4,378,637	1.92	63.47
San Francisco Health Plan	5,140,336	7,626,466	2,486,130	10.84	254.72
San Joaquin County Health	17,356,157	24,589,940	7,233,783	23.58	453.40
Santa Barbara		1,823,019			
Santa Clara County Health Auth.	6,074,176	11,079,548	5,005,372	11.74	263.77
Ventura County	1,178,693			-	-
Limited License Plans					
Concentrated Care	6,942,660	8,037,905	1,095,245	127.21	76.29
Heritage Provider Network	8,777,516	9,339,184	561,668	1.96	
PrimeCare Medical Network	0	7,747,594	7,747,594	1.92	
ProMed Health Care Administrators	0	1,017,294	1,017,294	5.90	
Scripps Clinic Health Plan Services		1,749,170	1,749,170	0.51	185.33
TOTAL	3,730,849,238	4,185,941,495	475,975,127	5.27	196.54

HMO Net Worth

In the first section of the report, concerns over provider group solvency were discussed. That leads to the question of what the appropriate standard is for HMOs, in terms of reserves and the ability to pay bills. Under state law, a California HMO must maintain a cash deposit of $300,000 that would be available for the expenses of rehabilitating an HMO in distress or liquidating one that is insolvent. A separate law requires HMOs to maintain adequate tangible net equity. How much is adequate depends on the size of the health plan and the extent to which it shares risk with physicians and hospitals through capitation and related agreements.

The analysis here is based on the statutory balance sheets submitted by each HMO for 1999 and 2000. As shown in *Exhibit 24*, HMOs had an average of 5.27 weeks of net worth at the end of 2000. Put another way, if no new revenues were to come in, HMOs could stay in business and continue to pay claims and administrative expenses for a little more than five weeks. HMOs had net worth averaging almost $200 per member.

Three of the largest HMOs made significant additions to their net worth in 2000. Blue Cross saw its net worth increase by $114 million in 2000 after adding a quarter of a billion dollars in net worth in 1999. Kaiser added $88 million and Health Net added $53.5 million to its worth.

Utilization and Effectiveness of Care Measures

In the mid-1990s, employers and health plans began to develop measures of the effectiveness of care provided through health plans as well as other aspects of health plan performance: utilization of services, stability of membership and provider network and so on. These measures were known as HEDIS, the Health Plan and Employer Data Information Set. HEDIS is now administered by National Committee for Quality Assurance (NCQA), a Washington, D.C. organization. NCQA is also one of the groups that has developed programs for accreditation of managed care organizations. The accreditation status of California HMOs is reported in the sidebar on this page.

In California, a coalition of employers, providers, and health plan companies has encouraged HMOs to participate in HEDIS reporting, and it compiles and publishes that information. The California Cooperative Healthcare Reporting Initiative (CCHRI) is a statewide collaborative of employers, health plans, and providers dedicated to producing accurate, standardized, comparable reports on health care performance. Through standardized reports, the data can compare 'apples to apples' — helping consumers make informed choices about their health care. This data is translated into comparisons, and the Pacific Business Group on Health posts it at the California HealthScope Web site (http://www.healthscope.org) Consumers can also use HealthScope to find comparative information on California hospitals, including the results of the 2001 Leapfrog survey. Hospitals in six regions, including parts of California, were asked about progress and plans toward three goals:

- Requiring doctors to use computer order entry systems
- Demonstrating proven better outcomes or extensive experience with complex treatment (the practice makes perfect rule) and
- Staffing Intensive Care Units at least eight hours daily with specially trained critical care physicians

This section presents a comparison of many of the major commercial HMOs in the state on three types of measures: utilization of care, effectiveness of care and enrollee satisfaction. The data for this section were drawn from NCQA's Quality Compass® data set. The data were released in 2001 and reflect operations in 2000. Those measures are known as HEDIS 2001. The data set includes only data for enrollees in commercial HMO plans and point of service plans. Eleven California health plans participated in HEDIS 2001, some of them reporting separately in different regions of the state. For example, Kaiser Permanente reported separately for northern and southern regions, and Aetna U.S. Healthcare submitted three regional reports.

Note that the data here are for all commercial lines of business, including point of service plans, which may go beyond the commercial enrollment reported on the state filings. *Exhibit 25* compares these HMOs on their rates of inpatient hospital utilization for commercial enrollees in 2000. The table shows three measures of utilization: inpatient days per 1,000 enrollees, discharges per 1,000 enrollees and average length of stay. Other hospital stays, such as non-acute care, are reported separately. The last two columns show rates of inpatient utilization, measured again in days per 1,000, for admissions for mental illness or chemical dependency diagnoses.

On average, California HMO enrollees used 142 inpatient days per 1,000. That is much lower than the national average of 195 days per 1,000. Kaiser Permanente was on the high end of this group, although its rate of 151 days in southern California is still relatively low. Blue Cross and PacifiCare reported 123 days and 114 days, respectively. Average length of stay was 3.34 days and the average number of

NCQA Accreditation for California HMOs

Aetna U.S. Healthcare of California, San Diego-Commercial/HMO/POS Combined EXCELLENT

Aetna U.S. Healthcare of California, North and Southern Regions-Commercial/HMO/ POS Combined COMMENDABLE

Aetna U.S. Healthcare of California, Southern Region-Medicare/HMO COMMENDABLE

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

Blue Cross of California-State Sponsored Programs Medicaid/HMO New Health Plan Accreditation.

Blue Shield of California-Commercial/HMO/POS Combined Commendable Medicare/HMO ACCREDITED

CIGNA HealthCare of California-Commercial/HMO/POS Combined COMMENDABLE

Community Health Group Medicaid/HMO New Health Plan Accreditation.

Health Net Commercial/HMO/POS Combined COMMENDABLE Medicare/HMO/POS Combined COMMENDABLE

Inland Empire Health Plan Medicaid/HMO COMMENDABLE

Kaiser Foundation Health Plan Southern California-Commercial/HMO and Medicare/HMO EXCELLENT

Kaiser Foundation Health Plan Northern California-Commercial/HMO and Medicare HMO EXCELLENT

Lifeguard-Commercial/HMO COMMENDABLE

Molina Healthcare of California,Medicaid/HMO New Health Plan Accreditation.

PacifiCare of California-Commercial/HMO/POS Combined and Medicare/HMO EXCELLENT

Prudential HealthCare-Commercial/HMO/POS Combined COMMENDABLE

Universal Care Commercial/HMO COMMENDABLE

Western Health Advantage-Commercial/HMO SCHEDULED

Exhibit 25

Inpatient Hospital Utilization for Commercial Health Plans, 2000

HMO	Lines of Business	Acute Days Per 1,000 Members	Average Length of Stay	Discharges Per 1,000 Members	Mental Health Days per 1000	Chemical Dependency Days Per 1000
Aetna U.S. Healthcare - San Diego	HMO/POS Combined	NR	NR	NR	8.04	3.81
Aetna U.S. Healthcare - South	HMO/POS Combined	NR	NR	NR	10.12	6.38
Aetna U.S. Healthcare Inc. - North	HMO/POS Combined	154.57	3.63	42.53	9.33	6.82
Blue Cross of California	HMO/POS Combined	122.68	NR	NR	17.28	2.67
Blue Shield of California	HMO/POS Combined	NR	NR	NR	NR	NR
CIGNA HealthCare	HMO/POS Combined	NR	NR	NR	11.60	2.96
Health Net	HMO/POS Combined	NR	3.41	35.94	3.94	2.56
Health Plan of the Redwoods	HMO	123.28	3.31	37.20	10.35	7.87
Kaiser Foundation - Northern California	HMO	143.34	3.26	43.94	12.59	1.11
Kaiser Foundation - Southern California	HMO	150.71	2.97	50.83	13.45	4.88
Lifeguard, Inc.	HMO	NR	NR	NR	NR	NR
PacifiCare of California	HMO/POS Combined	114.13	3.44	33.20	12.21	3.03
Universal Care	HMO	NR	NR	NR	NR	NR
National Average- All Lines of Business		195.26	3.59	54.27		
California Average- All Lines of Business		141.51	3.34	42.48		

Source: Author's analysis of HMO HEDIS reports found in NCQA Quality Compass® data files. Some cells are shown as NA, not applicable, meaning that the HMO did not have enough members in that cell to meet NCQA standards of statistical significance or to protect privacy of individual members. Other cells show NR, meaning not reported.

discharges per 1,000 enrollees was 42, both well below the national average.

The Quality Compass data set includes four measures of ambulatory care utilization. As *Exhibit 26* shows, commercial enrollees in these HMOs used an average 2,495 outpatient (office) visits per 1,000 members, well below the national average of 3,192. The two Kaiser Permanente plans reported rates of 3,500 and more visits, while PacifiCare, CIGNA, and Health Net reported below average rates. California HMOs also fell well below national averages on the other three measures: emergency room visits per 1,000 members, ambulatory surgery procedures per 1,000 members, and observation room stays per 1,000 members. It seems curious that the rate of emergency room use is almost twice as high for Kaiser enrollees in northern California as it is for Kaiser members in southern California.

Outpatient prescription drug use has been identified as a key driver of health care cost increases. *Exhibit 27* compares commercial HMOs on two measures of prescription drug use for 2000. Here again California's rates of use fall below national averages. On average, a California HMO member had 7.34 prescriptions filled in 2000 at a per-mem-

Exhibit 26

Ambulatory Utilization Measures for Commercial Health Plans, 2000

HMO	Outpatient Visits Per 1000	Emergency Room Visits Per 1000	Ambulatory Surgery Procedures Per 1000	Stays Per 1000
Aetna U.S. Healthcare - San Diego	2,331.72	75.69	41.17	1.34
Aetna U.S. Healthcare - South	NR	NR	NR	NR
Aetna U.S. Healthcare - North	1,921.12	110.43	40.91	0.57
Blue Cross of California	NR	85.52	NR	1.80
Blue Shield of California	NR	NR	NR	NR
CIGNA HealthCare	2,049.28	125.59	32.82	NR
Health Net	2,174.51	87.47	46.66	1.35
Health Plan of the Redwoods	2,648.97	143.17	59.54	1.81
Kaiser Foundation - Northern California	3,575.58	366.42	23.63	3.90
Kaiser Foundation - Southern California	3,490.79	195.58	27.76	4.46
Lifeguard, Inc.	NR	NR	NR	NR
PacifiCare of California	2,032.03	99.28	35.79	2.10
Sharp Health Plan				
Universal Care	NR	NR	NR	NR
National Average- All Lines of Business	3191.75	164.25	77.03	7.93
California Average- All Lines of Business	2495.27	126.40	41.32	2.04

Source: Author's analysis of HMO HEDIS reports found in NCQA Quality Compass® data files. Some cells are shown as NA, not applicable, meaning that the HMO did not have enough members in that cell to meet NCQA standards of statistical significance or to protect privacy of individual members. Other cells show NR, meaning not reported.

ber per-month cost of about $20.00. The national average is 8.75 prescriptions at an average monthly cost of $29. Most capitated physicians groups now share risk for prescription drug expenses, but still feel an incentive to be conservative in prescribing.

Among the earliest HEDIS measures were a series now called effectiveness of care, measuring the proportion of enrollees in certain demographic cohorts that had screenings for breast cancer or cervical cancer. Other measures have been added to that category and some of the old ones have been revised. *Exhibit 28* compares HMOs on five effectiveness-of-care measures and one utilization measure. (The measures are described in the notes to the table.) On five of the six measures, California

On average, a California HMO member had 7.34 prescriptions filled in 2000 at a per-member per-month cost of about $20.00. The national average is 8.75 prescriptions at an average monthly cost of $29.

Exhibit 27

Outpatient Prescription Drug Expense for Commercial Health Plans, 2000

HMO	Prescriptions	Prescriptions Per Member Year	Prescription Expenses	Average Cost Per Member Per Month
Aetna U.S. Healthcare - North	1,499,142	7.47	NR	NR
Aetna U.S. Healthcare - San Diego	759,154	7.65	NR	NR
Aetna U.S. Healthcare - South	2,152,062	6.89	NR	NR
Blue Cross	8,989,703	6.62	344,203,755	21.13
Blue Shield	NR	NR	NR	NR
CIGNA HealthCare	3,165,302	6.61	124,950,747	21.75
Health Net	12,995,022	8.91	454,800,705	25.99
Health Plan of the Redwoods	531,594	7.64	17,188,602	20.59
Kaiser Foundation - Northern California	13,475,652	5.82	466,601,130	16.80
Kaiser Foundation - Southern California	11,864,032	5.15	422,237,863	15.27
Lifeguard, Inc.	NR	NR	NR	NR
PacifiCare of California	12,824,211	7.96	341,193,561	17.65
Universal Care	NR	NR	NR	NR
National Average - All Lines of Business		8.75		29.11
California Average - All Lines of Business		7.34		19.76

Source: Author's analysis of HMO HEDIS reports found in NCQA Quality Compass® data files. Some cells are shown as NA, not applicable, meaning that the HMO did not have enough members in that cell to meet NCQA standards of statistical significance or to protect privacy of individual members. Other cells show NR, meaning not reported.

Exhibit 28

Effectiveness of Care Measures for Commercial Health Plans, 2000

HMO	Childhood Immunization	Mammography	Cervical Cancer Screening	Eye Exams Diabetics	Beta Blockers	Six Well Child Visits in First 15 Months
Aetna U.S. Healthcare - North	70.86	75.00	79.42	47.02	100.00	34.60
Aetna U.S. Healthcare - San Diego	80.61	79.17	85.41	68.17	NA	29.38
Aetna U.S. Healthcare - South	67.22	68.71	81.31	60.41	97.56	35.00
Blue Cross	71.06	72.51	76.44	50.36	90.40	54.01
Blue Shield	71.26	65.57	75.73	39.37	88.24	NR
CIGNA HealthCare	66.15	74.44	82.46	60.58	134.53	26.50
Health Net	68.57	72.56	68.04	47.72	81.40	40.09
Health Plan of the Redwoods	67.88	78.35	78.83	42.82	NA	35.89
Kaiser Foundation - Northern California	74.13	76.74	80.31	73.77	96.97	64.97
Kaiser Foundation - Southern California	82.00	77.37	80.05	65.45	134.89	79.23
Lifeguard	71.40	80.09	85.98	50.36	86.90	68.91
PacifiCare	70.99	73.13	82.42	59.62	134.85	NR
Sharp Health Plan						
Universal Care	46.96	62.04	57.66	53.28	69.23	NR
National Average- All Lines of Business	66.77	74.46	78.10	48.07	89.35	55.18
California Average- All Lines of Business	65.63	72.68	75.65	52.05	88.60	44.17

Explanation of measures: **Childhood Immunization.** Using Combination 1 which identifies children who turned two years old during the reporting year and who received 4 DTP, 3 OPV, 1 MMR, 2 HepB and 1 HIB. **Mammography.** Identifies women age 52 through 69 who had one or more mammograms during the reporting year or the prior year. **Cervical Cancer Screening.** Identifies women age 21 through 64 who had one or more Pap test during the reporting year or the prior two years. **Eye Exams for Diabetics.** Identifies members age 18-75 with diabetes who received a retinal exam during the report year.

Source: Author's analysis of HMO HEDIS reports found in NCQA Quality Compass® data files. Some cells are shown as NA, not applicable, meaning that the HMO did not have enough members in that cell to meet NCQA standards of statistical significance or to protect privacy of individual members. Other cells show NR, meaning not reported.

When enrollees were asked about their overall satisfaction with their health plan, only one health plan had 75% or more of the enrollees giving highest marks, and three others had between 60% and 70%.

comes out below the national average. The differences are relatively modest, with one exception: the percentage of children having six well child visits in their first 15 months. In that case, the national average was 55% but the California average was only 44%. Note that the state averages are not weighted to adjust for the size of the participating HMOs.

The results vary quite a bit, with some HMOs scoring very high on some measures and low on others. The range seems to be widest on the well-child visits. While the state average was 44%, a few plans reported scores of 35% or less while three were at 65% or more. As was noted earlier, some California health plans believe that their HEDIS score are hurt by not having direct access to patient encounter data.

Enrollee Satisfaction

Measurement and reporting of health care quality are still at a very early stage, so a good deal of emphasis is placed on something that can be measured, namely enrollee satisfaction. Whether satisfaction is a useful proxy for quality of care is open to debate. *Exhibit 29* shows a series of measures of enrollee satisfaction as measured using the Consumer Assessment of Health Performance Survey (CAHPS®).

In the survey, enrollees were asked about satisfaction with providers and care received as well as the performance of the health plan. The first three measures in the table are based on a composite score for a series of questions in that area. The last two ask for a rating on a scale of 1 to 10, with 10 being the best. When asked about satisfaction with all the health care they had received in the past year, more than 80% of enrollees in four HMOs, Blue Cross, Health Plan of the Redwoods, National Health, and Sharp Health Plan gave high marks. Sharp Health Plan has high scores across the board. However, fewer than 65% of enrollees at five other health plans gave highest marks to their health care. When enrollees were asked about their overall satisfaction with their health plan, only one health plan had 75% or more of the enrollees giving highest marks, and three others had between 60% and 70%. For three HMOs, about half the enrollees ranked their overall experiences with the health plans as 8, 9, or 10.

Exhibit 29

Enrollee Satisfaction Measures Reported on CAHPS Survey for Commercial Health Plans, 2000

HMO	Customer Service	Getting Needed Care	Getting Care Quickly	Rating of All Health Care	Rating of Health Plan
Aetna U.S. Healthcare - North	61.77	66.96	74.94	67.77	49.91
Aetna U.S. Healthcare - San Diego	64.67	70.74	74.71	69.27	60.68
Aetna U.S. Healthcare - South	61.22	64.19	67.96	64.71	56.45
Blue Cross of California	69.73	80.32	84.70	76.17	57.40
Blue Shield of California	61.15	64.98	70.21	63.75	50.85
CIGNA HealthCare	61.78	60.26	67.42	53.63	50.83
Health Net	64.29	67.69	72.06	66.85	56.53
Health Plan of the Redwoods	66.64	67.52	81.44	76.48	59.44
Kaiser Foundation - Northern California	76.11	72.98	76.27	63.52	58.11
Kaiser Foundation - Southern California	77.63	74.96	72.03	65.16	61.95
Lifeguard, Inc.	64.41	68.77	75.80	68.27	59.75
National Health Plans	74.18	74.28	76.68	75.13	66.86
PacifiCare of California	64.86	63.42	70.51	63.51	53.82
Sharp Health Plan	70.91	88.56	82.55	81.52	75.43
Universal Care	64.51	64.94	69.07	64.44	56.88

Explanation of Measures: **Customer Service.** A composite score based on the percentage of members who responded "Not a problem" when asked if they had any problem with the health plan's written material, customer service call staff or paperwork. **Getting Needed Care.** A composite score based on the percentage of members who responded "Not a problem" when asked about their experience in the past year in: (1) getting a provider they were happy with, (2) getting a referral to a specialist; (3) getting care believed necessary and (4) delays in getting approval from the health plan. **Getting Care Quickly.** A composite score based on the percentage of members who responded "Always" or "Usually" when asked about: (1) their experience in the past year in getting help or advice requested during normal office hours (2) getting a timely appointment for routine care; (3) getting care right away when needed because of illness or injury and (4) how often they waited 15 minutes or more past appointed time to see the provider they went to see. **Rating of All Health Care.** Percentage of members who, on a scale from 1 to 10, with 10 being the best, rated all their health care in the past year with an 8, 9, or 10. **Rating of Health Plan.** Percentage of members who, on a scale from 1 to 10, with 10 being the best, rated their experiences with their health plan in the past year with an 8, 9, or 10.

Source: Author's analysis of HMO HEDIS reports found in NCQA Quality Compass® data files. Some cells are shown as NA, not applicable, meaning that the HMO did not have enough members in that cell to meet NCQA standards of statistical significance or to protect privacy of individual members. Other cells show NR, meaning not reported.

IV. REGIONAL SUB-MARKETS AND PROVIDER SYSTEMS

California is as big as many other states combined. Sometimes it seems that culture, environment and health care systems are so varied in different parts of the state that it feels like being in different states. This report looks at differences within the state, including how physicians and hospitals organize, the role of Medi-Cal and Medicare, the involvement of private purchasers and how health plans compete with each other. Note that there is probably disagreement about how to draw the lines that separate different regions of the state. In the absence of any broad consensus, this report took the liberty of drawing lines.

This final section of the report examines market issues in six regions of California, focusing on provider systems and managed care competition. The hospital analysis is based on the financial and utilization data that the OSHPD collects from hospitals each quarter and year. The data presented here are for hospital reporting years ending between January 1 and December 31, 2000. The analysis is limited to acute care hospitals, and does not include specialty hospitals, such as rehabilitation or behavioral health facilities, or hospitals for military veterans or active duty personnel.

Two tables of hospital data are presented in each regional analysis. Hospitals are grouped based on their system or network affiliation during 2000, and there have been changes since then. 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. According to 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) pie charts present the market share of the major hospital systems and largest independent hospitals. Market share is calculated based on the number of inpatient hospital days. An analysis based on hospital discharges, patient revenues or outpatient procedures might yield a different result. Note also that the sum of financial results for all hospitals in a given system might not tie out to the results reported by that system in its GAAP financial statements. The system might include physician practices, home health, long-term care facilities and so on.

In 2002, all of this takes place in difficult circumstances. The state faces a budget shortfall of huge proportions. Health care is a large part of that budget, so any solution for bridging the budget deficit will likely cause significant pain to health care providers, particularly those that take responsibility to care for Californians who are indigent or who receive health benefits from Medi-Cal, Healthy Families or local programs that finance indigent care. This comes on top of moves by the federal government to change the rules on Medicaid payments that may cost California hospitals hundreds of million dollars each year.

The state faces a budget shortfall of huge proportions. Health care is a large part of that budget, so any solution for bridging the budget deficit will likely cause significant pain to health care providers, particularly those that take responsibility to care for Californians who are indigent or who receive health benefits from Medi-Cal, Healthy Families or local programs that finance indigent care.

Hospitals throughout the state face a huge challenge in the future as they work to comply with state requirements for hospital construction that meets seismic standards. However, it appears that the burden does not fall equally, in the sense that some hospitals seem better prepared. For example, many public hospitals anticipated the need for stronger design and were constructed in a way that put them much closer to compliance with the standards as they are phased in over the next several years. The geology of some parts of the state, such as Fresno, is considered more stable, and hospitals there will have less to do to comply with the standards.

Some methodology notes on the tables of physician organizations: 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 doctors reported by each IPA might result in significant overlap. The tables also show a self-reported 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 the results of surveys conducted by Cattaneo & Stroud, Inc. The firm's physician data are generally from 2000 and are as estimated and reported by the responding physician organizations. They are not subject to external audit.

Because there are so many physician organizations in California, we did not include all of the smaller ones in these tables. 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.

Within the tables, the physician organizations are grouped by structure—IPAs, medical groups, and foundations in their own listings. Understanding the differences between the models is important to understanding the markets in which physician organizations find themselves. The degree of integration is significantly higher in a medical group or foundation model than in an IPA, and this is an important distinction.

Readers should note that data on physician organizations could be soft. The number of physicians listed has probably changed since the day of the survey response. Physician groups change frequently, as physicians form new groups or realign with existing ones. Groups go out of business and new ones are formed. Some organizations were formed to contract with a single health plan but have since disappeared because that arrangement changed.

San Francisco Bay Area

This analysis of managed care issues and activities in the San Francisco Bay area looks at six counties: Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Santa Clara. The table of physician organizations includes Sonoma County as well. Those counties cover three separate health planning regions. It is also possible to view sub-markets within this region and that has been an issue in the case of hospital mergers, such as recent deals in

Exhibit 30

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		

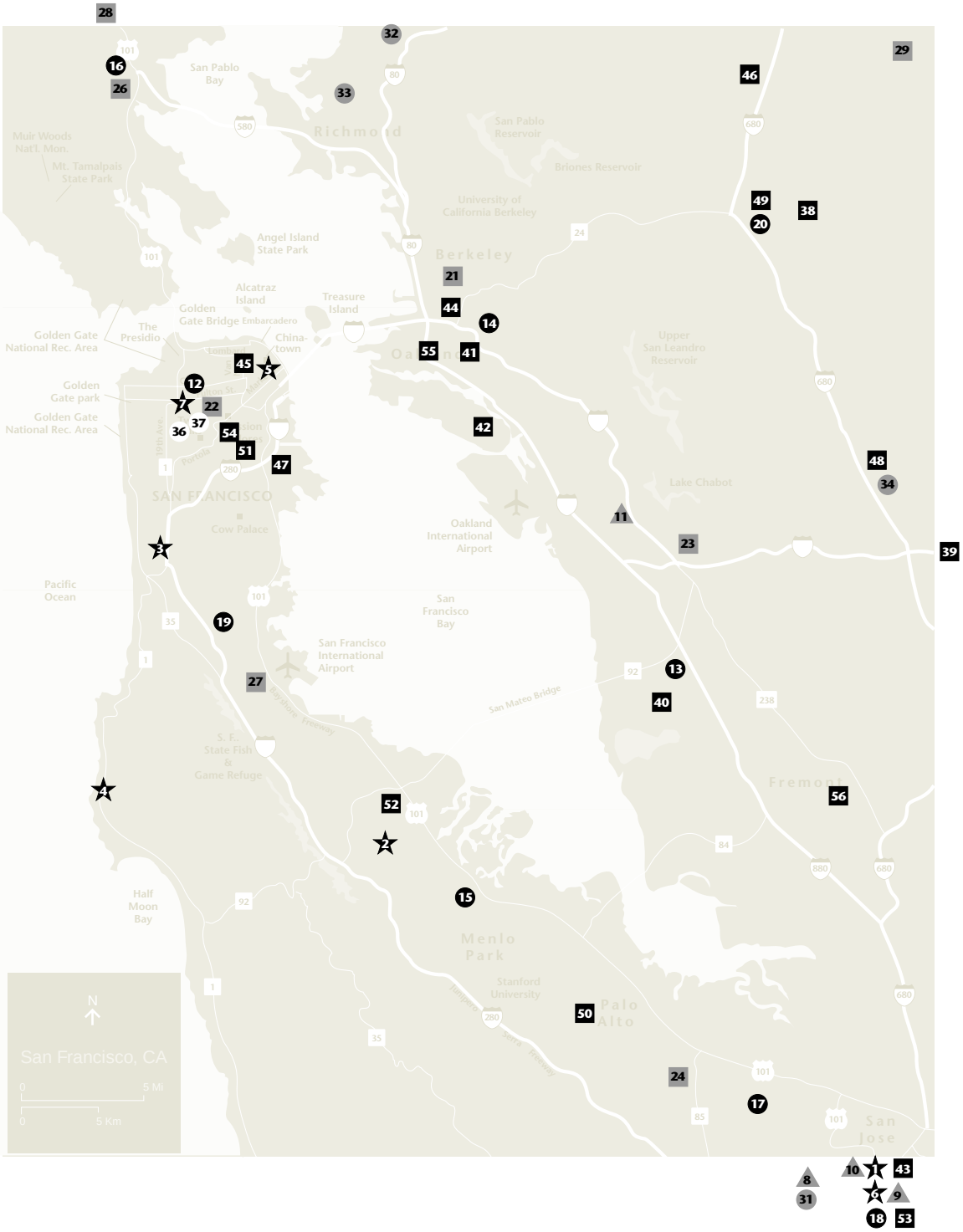
Alameda County, or for health plans trying to decide which hospitals they need to contract with in Contra Costa County.

In the tables, hospitals are grouped into six major systems plus two large and prominent academic health centers. As elsewhere, hospital system building has been important in the Bay Area, and the lineup of systems continues to evolve. Hospitals have merged only to un-merge, and some of the system building has also come undone. *Exhibit 30* is a map of the region showing the hospitals and their system affiliations.

The Sutter hospital system remains the largest. It now includes eight facilities in the area and added St. Luke's in San Francisco in 2001. It has strong geographic presence in most parts of the Bay Area, and also has facilities in the fast growing corridor between Sacramento and the Bay Area. Second in

Exhibit 30

Bay Area Hospitals and Systems



size are nine Kaiser Foundation hospitals in the area, followed by the Catholic Healthcare West facilities. Two major academic medical centers, University of California at San Francisco and Stanford University, are independent once again. They had a brief and unhappy marriage followed by a breakup.

Exhibit 31 compares the hospitals in the region on their revenues and profitability. This analysis shows

Exhibit 31

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		**597,222,711**	**619,018,902**	**(1,132,225)**	**28,049,345**	**4.3%**
O'Connor Hospital	San Jose	112,429,923	116,266,322	3,318,149	8,871,098	7.0%
Sequoia Hospital	Redwood City	119,973,682	113,863,229	8,538,712	9,532,837	7.7%
Seton Medical Center	Daly City	147,615,067	142,319,700	6,014,971	10,142,809	6.5%
Seton Medical Center - Coastside	Moss Beach	8,167,259	9,536,106	(1,295,374)	(1,285,066)	-15.6%
St. Francis Memorial Hospital	San Francisco	70,260,980	74,810,944	(2,105,439)	7,049,754	8.2%
St. Louise Regional Hospital	Gilroy	28,361,057	33,947,818	(5,378,907)	(5,478,973)	-18.7%
St. Mary's Medical Center San Francisco	San Francisco	110,414,743	128,274,783	(10,224,337)	(783,114)	-0.6%
HCA: The Healthcare Company		**393,467,950**	**426,045,743**	**(27,609,753)**	**(26,659,436)**	**-6.7%**
Good Samaritan Hospital	San Jose	201,082,567	208,204,839	(4,536,260)	(4,317,033)	-2.1%
Regional Medical Center of San Jose	San Jose	76,844,701	99,779,256	(22,223,126)	(21,499,423)	-27.4%
San Jose Medical Center	San Jose	115,540,682	118,061,648	(850,367)	(842,980)	-0.7%
Kaiser Foundation Northern Region	**Oakland**	**20,597,592**	**1,665,370,084**	**197,941,819**	**197,941,819**	**10.6%**
Sutter Health		**1,382,606,901**	**1,410,038,760**	**16,251,784**	**54,495,734**	**3.7%**
Alta Bates Medical Center-Ashby Campus	Berkeley	306,935,214	318,181,868	(1,662,865)	2,513,475	0.8%
California Pacific Medical Center	San Francisco	385,844,428	387,757,241	7,821,098	33,833,399	8.0%
Eden Medical Center	Castro Valley	92,751,939	90,783,945	3,300,907	3,990,005	4.2%
Summit Medical Center	Oakland	188,572,535	220,910,883	(16,969,139)	(13,770,401)	-6.6%
Marin General Hospital	San Rafael	132,403,104	127,014,409	8,196,734	7,652,509	5.5%
Mills-Peninsula Medical Center	Burlingame	194,320,357	189,152,081	9,579,716	12,833,150	6.3%
Novato Community Hospital	Novato	27,103,867	24,828,735	2,365,162	2,296,465	8.4%
Sutter Delta Medical Center	Antioch	54,675,457	51,409,598	3,620,171	5,147,132	9.0%
Tenet Health		**251,626,286**	**240,928,763**	**11,686,704**	**11,546,457**	**4.5%**
Community Hospital of Los Gatos	Los Gatos	74,693,627	69,420,339	5,440,025	4,971,854	6.3%
Doctors Medical Center - Pinole	Pinole	38,865,059	40,565,788	(1,492,398)	(1,597,222)	-4.0%
Doctors Medical Center - San Pablo	San Pablo	80,107,551	78,716,726	1,749,015	2,044,763	2.5%
San Ramon Regional Medical Center	San Ramon	57,960,049	52,225,910	5,990,062	6,127,062	10.4%
University of California San Francisco Medical Center	**San Francisco**	**518,977,626**	**571,504,966**	**(45,217,311)**	**(43,458,834)**	**-8.2%**
Stanford University Hospital	**Stanford**	**623,041,705**	**760,937,853**	**(86,883,064)**	**(57,167,362)**	**-8.0%**
Muir Mt. Diablo		**340,534,691**	**389,780,291**	**(13,500,744)**	**(15,400,225)**	**-4.0%**
Mt. Diablo Medical Center	Concord	131,125,350	147,794,542	(14,993,613)	(14,429,225)	-10.5%
John Muir Medical Center	Walnut Creek	209,409,341	241,985,749	1,492,869	(971,000)	-0.4%
Other Hospitals		**2,331,725,934**	**2,354,300,633**	**58,035,721**	**278,909,177**	**10.6%**
Valley Memorial Hospital	Livermore	97,109,908	98,215,027	352,171	1,844,072	1.8%
St. Rose Hospital	Hayward	55,594,741	58,988,714	(2,427,255)	(2,313,594)	-4.1%
Alameda County Medical Center	Oakland	336,290,036	227,070,912	116,760,261	121,854,255	34.9%
Alameda Hospital		33,346,546	35,717,499	(2,284,466)	(1,268,368)	-3.6%
Children's Hospital Medical Center of Northern California	Oakland	156,746,205	198,608,564	(12,413,604)	(3,826,880)	-1.9%
Chinese Hospital	San Francisco	33,038,833	32,669,061	643,837	1,475,713	4.3%
Contra Costa Regional Medical Center	Martinez	149,509,783	193,506,682	(34,911,636)	20,679,701	9.4%
El Camino Hospital		152,310,953	181,896,542	(16,234,626)	(9,058,259)	-5.4%
Lucile S Packard Children's Hospital at Stanford	Palo Alto	176,121,723	228,921,687	(50,102,345)	(38,282,003)	-20.1%
San Francisco General Hospital	San Francisco	270,314,053	328,762,724	(56,768,301)	(4,177,838)	-1.3%
San Mateo General Hospital	San Mateo	58,483,190	121,036,913	(57,709,363)	(720,176)	-0.6%
Santa Clara Valley Medical Center	San Jose	586,551,485	423,483,849	168,464,916	177,069,791	29.5%
St. Luke's Hospital	San Francisco	77,308,668	81,654,262	(2,554,329)	3,686,334	4.3%
Washington Hospital - Fremont	Fremont	148,999,810	143,768,197	7,220,461	11,946,429	7.7%
TOTAL		6,459,801,396	8,437,925,995	109,572,931	428,256,675	4.8%

Source: Author's analysis of annual hospital report data from office of Statewide Health Planning and Development

that hospitals in the area made $109 million on their operations, based on net patient revenues of $6.5 billion. Note that this analysis is based on the OSHPD data base which may not included certain ancillary operations that might be part of a system's total operations. With the help of other revenues from investments, philanthropy and other sources, the hospitals in the region had net income of $428.3 million in 2000. Sutter Health had a profit of $54.5 million in 2000. The Kaiser hospitals in all of northern California had a notable turnaround. According to the state data, they went from a loss of $111 million in 1999 to a profit of $197.9 million in 2000.

Finances have been at the heart of disputes between health plans and hospitals. Hospitals have sought to improve their financial position in several ways: by improving overall payment rates, by changing from capitation to a modified fee-for-service payment and by exiting contracts for Medicare plans. For example, Mt. Diablo Medical Center in Concord and John Muir Medical Center in Walnut Creek have merged and sought to negotiate new contracts with key health plans. Negotiations with Blue Cross and Blue Shield, among others, went on for more than a year before they were resolved. Even though the two hospitals are not viewed as equally strong, their locations give them significant bargaining leverage in that part of the region. The nearest hospitals of that caliber are in San Ramon, Oakland, and Pleasanton. Employers in Contra Costa County might be reluctant to select a health plan that did not offer access to the most prominent hospitals in the area.

As shown in *Exhibit 32*, the Sutter hospitals account for about 22% of hospital days in the area. The Kaiser Foundation hospitals have the second large share at 14.4%, followed by Catholic Healthcare West. San Francisco General and Alameda County combine to have about 10% of the inpatient days in the area. Both of them have less than 10% of their inpatient days covered by managed care payers.

Exhibit 33 shows that inpatient occupancy averages 64.1% in the Bay Area. That is based on a calculation of staffed beds, which would usually be somewhat lower than the number of licensed beds. Hospitals may not be consistent in how they distinguish licensed beds from staffed beds. Hospital capacity has become more of an issue in the past two years. Before then, there was general agreement that there was surplus bed capacity. Some people hoped that the requirements that hospitals rebuild or renovate to comply with seismic standards would lead to a right sizing of hospital capacity. Now, however, there is less agreement that excess capacity is a problem, especially in areas of rapid population and economic growth. Stories of hospital emergency rooms on diversion or hospitals operating at capacity during peak periods are heard more frequently now.

The University of California at San Francisco reported inpatient occupancy of 76.4%, the highest in the area. Of the systems, Sutter Health had occupancy of 66.2% followed by the Kaiser Foundation hospitals in the area, with 57.8%. On average, Bay Area hospitals had about the same percentage of days paid for by Medicare and managed care payers. The average hospital reports about 21% in Medi-Cal days. However, the general hospitals in San Francisco, San Mateo, and Oakland, among others, had 45% and more of their patient days covered by Medi-Cal.

Kaiser Permanente is by far the largest HMO in the area. *Exhibit 34* shows that Kaiser has 40% of the estimated 4.2 million HMO enrollees in the region. Blue Cross and Blue Shield follow at some distance. The four largest plans, adding Aetna-U.S. Healthcare-Prudential, account for about 75% of

Hospital capacity has become more of an issue in the past two years. Before then, there was general agreement that there was surplus bed capacity. Some people hoped that the requirements that hospitals rebuild or renovate to comply with seismic standards would lead to a right sizing of hospital capacity. Now, however, there is less agreement that excess capacity is a problem, especially in areas of rapid population and economic growth.

Exhibit 32

Market Share of Bay Area Hospital Systems

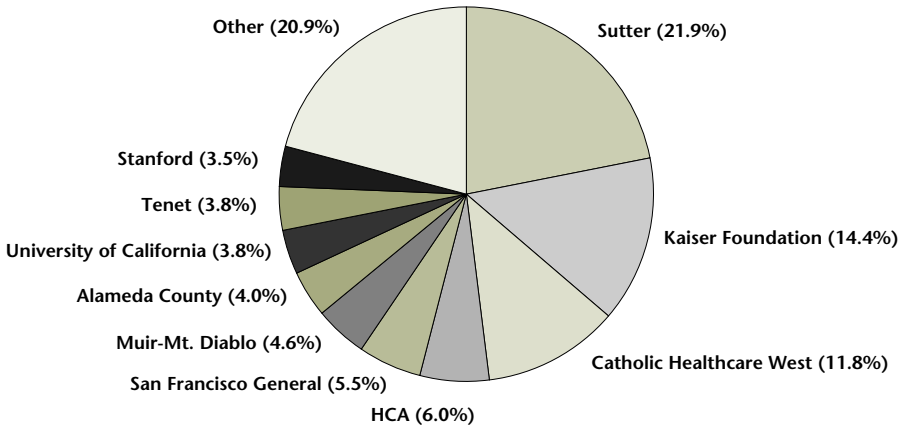


Exhibit 33

Inpatient Occupancy Rates and Payer Mix for Bay Area Hospitals

Hospital	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% County Indigent	% Other Third Parties	% Other Payers
Catholic Healthcare West	**1,428**	**347,924**	**51.8%**	**48.7%**	**20.1%**	**0.0%**	**28.7%**	**2.5%**
O'Connor Hospital	197	50,002	51.9%	49.1%	6.1%	0.0%	42.9%	1.9%
Sequoia Hospital	298	47,490	31.1%	63.7%	4.9%	0.0%	31.0%	0.4%
Seton Medical Center	230	81,959	83.2%	40.5%	26.4%	0.0%	31.3%	1.8%
Seton Medical Center - Coastside	117	41,174	93.0%	31.7%	59.8%	0.0%	2.4%	6.2%
St. Francis Memorial Hospital	221	42,598	35.8%	57.4%	15.0%	0.0%	23.5%	4.1%
St. Louise Regional Hospital	93	16,256	47.8%	47.6%	9.9%	0.0%	41.2%	1.3%
St. Mary's Medical Center San Francisco	272	68,445	53.7%	53.0%	15.1%	0.0%	29.8%	2.1%
HCA The Healthcare Company	**549**	**176,554**	**57.8%**	**36.6%**	**13.3%**	**0.0%**	**46.4%**	**3.6%**
Good Samaritan Hospital	238	85,454	73.4%	33.3%	4.2%	0.0%	60.9%	1.5%
Regional Medical Center of San Jose	188	46,790	68.0%	40.9%	26.0%	0.0%	28.2%	4.9%
San Jose Medical Center	123	44,310	36.9%	38.4%	17.4%	0.0%	37.8%	6.4%
Kaiser Foundation Northern Region	**2,011**	**425,397**	**57.8%**	**35.4%**	**0.4%**	**0.0%**	**63.5%**	**0.6%**
Kaiser Foundation Geary	279	49,864	48.8%	31.4%	0.5%	0.1%	67.5%	0.5%
Kaiser Foundation Hayward	207	55,811	73.7%	33.8%	0.2%	0.0%	65.4%	0.5%
Kaiser Foundation Oakland	357	60,080	46.0%	40.4%	0.6%	0.0%	58.4%	0.6%
Kaiser Foundation Redwood City	206	31,977	42.4%	34.5%	0.2%	0.1%	64.1%	1.1%
Kaiser Foundation San Rafael	120	19,485	44.4%	51.7%	0.3%	0.1%	46.9%	1.0%
Kaiser Foundation Santa Clara	287	66,001	62.8%	31.6%	0.2%	0.0%	67.8%	0.4%
Kaiser Foundation Santa Teresa	228	45,096	54.0%	30.0%	0.6%	0.1%	68.6%	0.8%
Kaiser Foundation South San Francisco	98	25,701	71.7%	45.9%	0.2%	0.0%	53.4%	0.6%
Kaiser Foundation Walnut Creek	229	71,382	85.2%	34.6%	0.4%	0.1%	64.3%	0.7%
Sutter Health	**2,400**	**647,806**	**66.2%**	**41.9%**	**16.7%**	**0.3%**	**36.3%**	**4.8%**
Alta Bates Medical Center- Ashby Campus	509	145,087	77.9%	22.4%	29.9%	0.2%	44.6%	2.9%
California Pacific Medical Center	714	183,513	70.2%	46.4%	8.8%	0.1%	39.0%	5.7%
Eden Medical Center	245	52,041	58.0%	50.1%	7.1%	0.0%	25.2%	17.6%
Summit Medical Center	279	98,054	62.0%	55.5%	25.5%	0.0%	18.0%	1.0%
Marin General Hospital	138	42,177	52.9%	40.3%	12.1%	3.4%	39.7%	4.5%
Mills-Peninsula Medical Center	363	93,072	68.0%	46.1%	11.6%	0.0%	39.2%	3.2%
Novato Community Hospital	45	11,576	43.9%	58.3%	3.1%	0.9%	34.9%	2.9%
Sutter Delta Medical Center	107	22,286	54.9%	30.0%	16.4%	0.0%	49.1%	4.5%
Tenet Health	**635**	**110,995**	**47.8%**	**40.0%**	**14.7%**	**0.5%**	**42.2%**	**2.6%**
Community Hospital of Los Gatos	143	31,426	60.0%	49.7%	3.5%	0.0%	45.8%	0.9%
Doctors Medical Center - Pinole	136	28,703	57.7%	36.9%	25.0%	0.0%	35.6%	2.5%
Doctors Medical Center - San Pablo	233	33,389	39.2%	41.0%	23.5%	1.8%	29.9%	3.9%
San Ramon Regional Medical Center	123	17,477	38.8%	25.8%	0.9%	0.0%	70.1%	3.2%
University of California San Francisco Medical Center	**488**	**113,340**	**76.4%**	**56.7%**	**21.7%**	**1.2%**	**16.7%**	**3.6%**
Stanford University Hospital	**422**	**102,812**	**66.6%**	**40.0%**	**6.7%**	**3.3%**	**44.1%**	**5.9%**
Muir-Mt. Diablo	**381**	**134,694**	**62.8%**	**47.0%**	**5.4%**	**0.3%**	**44.9%**	**2.4%**
Mt Diablo Medical Center	159	53,711	56.7%	41.4%	6.3%	0.2%	49.8%	2.3%
John Muir Medical Center	222	80,983	67.7%	50.7%	4.8%	0.3%	41.7%	2.5%
Other Hospitals	**3,339**	**898,901**	**67.7%**	**21.6%**	**41.9%**	**4.9%**	**23.7%**	**7.9%**
Valley Memorial Hospital	97	34,981	62.9%	56.4%	4.2%	0.0%	38.4%	0.9%
St. Rose Hospital	175	37,814	59.0%	37.4%	27.5%	1.0%	30.7%	3.4%
Alameda County Medical Center	428	119,273	76.1%	9.3%	72.6%	5.3%	4.8%	7.9%
Alameda Hospital	108	17,322	43.9%	53.2%	8.1%	0.0%	33.2%	5.4%
Children's Hospital Medical Center of Northern California	205	54,055	72.0%	0.1%	41.9%	0.0%	53.7%	4.2%
Chinese Hospital	59	10,760	49.8%	78.5%	11.4%	0.0%	8.7%	1.4%
Contra Costa Regional Medical Center	124	45,048	75.0%	27.3%	46.7%	18.2%	7.4%	0.5%
El Camino Hospital	288	72,995	69.6%	29.7%	13.5%	0.0%	55.2%	1.6%
Lucille S. Packard Children's Hospital at Stanford	240	60,360	68.7%	0.7%	31.9%	0.0%	66.6%	0.8%
San Francisco General Hospital	481	162,088	76.0%	14.5%	45.4%	7.5%	7.0%	25.6%
San Mateo General Hospital	213	59,718	76.6%	16.1%	67.8%	10.3%	4.4%	1.4%
Santa Clara Valley Medical Center	484	109,646	61.9%	17.7%	48.1%	10.1%	16.9%	7.2%
St. Luke's Hospital	156	55,936	61.6%	27.1%	48.0%	0.0%	20.0%	4.9%
Washington Hospital - Fremont	281	58,905	57.3%	49.6%	16.0%	0.0%	32.2%	2.2%
TOTAL	11,653	2,958,423	64.1%	35.9%	21.5%	1.8%	36.2%	4.6%

Source: Author's analysis of annual hospital report data from office of Statewide Health Planning and Development

HMO enrollees in the area. At one time or another, these health plans have been involved in contentious negotiations with the major hospital systems in town. Blue Shield has introduced its "Preferred Network" plan in the area.

The number of health plans participating in Medicare+Choice has dropped significantly in the past three years. Although senior enrollment remains high, the number of options has dropped. Health plans say that Medicare payment rates have not kept with increases in medical costs or with the demands by providers for better payment. Kaiser Permanente has the largest number of seniors with about 175,000 Medicare+Choice enrollees. PacifiCare is second, although it has seen its share of the senior market decline.

Most of the counties in the area have gone to a two-plan system for Medi-Cal managed care. And in most of those counties, Blue Cross is the competing commercial plan. That is the case in Alameda, Contra Costa, San Francisco, and Santa Clara Counties. Blue Cross also operates Medi-Cal program in several nearby counties in the Central Valley, including Fresno, Tulare, and Kern. In June 2001, Blue Cross had nearly 700,000 Medi-Cal enrollees, almost half of them in the Bay Area and in the Central Valley.

The Bay Area is the region of the state that has the most prominent IPAs. Six IPAs report more than 50,000 covered lives. The three largest IPAs in the area, as shown in *Exhibit 35*, are Brown & Toland, Hill Physicians, and the Santa Clara IPA. Among the group practices, more than 3,000 Kaiser Permanente doctors serve about 1.6 million enrollees. It recently added almost 100 more physicians when it acquired the Alameda Medical Group, and will absorb those doctors and their clinics into the Permanente system. Other prominent groups and medical foundations include the Palo Alto Medical Foundation (including the Camino Medical Group), the San Jose Medical Group, and the John Muir/Mt. Diablo Network Foundation. Doctors come and go, and there have been several examples of the last two years of physicians (and sometimes entire organizations) migrating into new affiliations.

Most of the counties in the area have gone to a two-plan system for Medi-Cal managed care. And in most of those counties, Blue Cross is the competing commercial plan.

Exhibit 34

Estimated Market Share for Bay Area HMOs

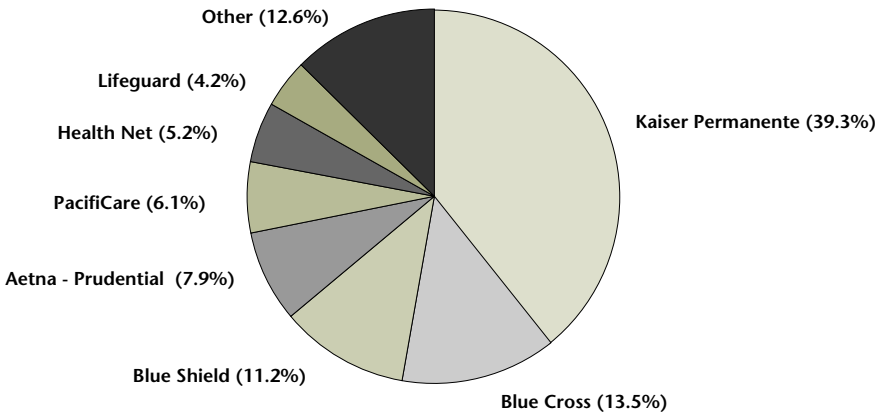


Exhibit 35

Bay Area Physician Organizations

Name of Physician Organization	Estimated Enrollment	Primary Care Physicians	Specialty Physicians	Management Service Organization	Notes
Group Practice					
The Permanente Medical Group, Inc.	1,649,010	1,032	2,062	The Permanente Medical Group, Inc.	
San Jose Medical Group, Inc.	90,600	156	390	San Jose Medical Group Management	Includes old Good Samaritan Medical Group (absorbed into San Jose Medical Group). Includes IPA type panel.
Bay Valley Medical Group, Inc.	28,000	105	300	Bay Valley Management Group	Includes IPA type panel
Palo Alto Medical Foundation/ Camino Medical Group	81,400	83	159	Palo Alto Medical Foundation	Became group practice contractor with Palo Alto Medical Foundation May 1, 2000; Sutter Health is the sole corporate member.
Brown & Toland Medical Group	226,100	426	1,321	Brown & Toland Physician Services Organization	
Hill Physicians Medical Group	222,150	484	878	PriMed Management Consulting, Inc. (Hill Physicians)	Catholic Healthcare West is an investor (27%) in PriMed.
Individual Practice Association Medical Group of Santa Clara County, Inc./Santa Clara IPA	137,000	259	546	Pacific Partners Management Services, Inc. (Santa Clara IPA)	
Affinity Medical Group, Inc.	53,900	105	650	Pacific Partners Management Services, Inc. (Santa Clara IPA)	Umbrella corporation for Alameda IPA, Contra Costa IPA, Eden IPA & San Leandro IPA, formerly panels of Alta Bates Medical Group.
Community Health Center Network	6,200	61	600	Community Health Center Network	IPA of group practices/clinics. Uses Alta Bates, Pacific Health Care specialists' panels, and Children's First specialists.
Alta Bates Medical Group	96,600	189	418	Sutter Connect	
Summit Medical Group, Inc.	1,900	99	285	Summit Medical Center	
Medical Dimensions, Inc.	1,000	92	290	Medical Dimensions, Inc.	
Mills-Peninsula Medical Group, Inc.	70,400	112	239	Mills-Peninsula Medical Group, Inc.	
Community Health Network of San Francisco	32,200	100	200	San Francisco City & County Government	IPA of Group Practices/Clinics
Children First Medical Group, Inc.	29,000	115	161	Children First Healthcare Network	
Physicians Medical Group	38,000	97	105	Excel MSO, LLC	Physicians Medical Group purchased of San Jose, Inc. Regional Medical Management in 2001 and changed to Excel MSO LLC.
Marin Individual Practice Association	43,200	75	121	Marin PHO	
Chinese Community Health Care Association Medical Group	20,700	68	75	Chinese Health Plan	
Medical Foundation					
Stanford Health Services	40,000	75	2,000	Stanford Health Services	Began separate operations from Brown & Toland in 2000. Includes medical group.
John Muir/Mt. Diablo Network Foundation	68,000	135	321	John Muir/Mt. Diablo Health Health Network Foundation	Includes medical group and IPA.
St. Joseph Health Foundation of Northern California/PCA	38,700	101	266	St. Joseph Health Foundation of Northern California	Includes medical group and IPA.
Sutter Medical Foundation North Bay/Sutter Medical Group of the Redwoods	45,400	78	201	Sutter Connect	Includes medical group and IPA.
Palo Alto Medical Foundation/ Palo Alto Medical Clinic	59,100	81	133	Palo Alto Medical Foundation	Sutter Health is the sole corporate member of of the foundation. Includes medical group.
State/County Faculty/Staff					
Santa Clara Valley Health & Hospital System	41,500	70	110	Santa Clara Valley Medical Center	
Contra Costa Regional Medical Center Medical Group	29,800	71	28	Contra Costa County Dept of Health Services	

Adopted from Cattaneo & Stroud

Sacramento

Sacramento is a high growth area, and its hospitals and health plans are growing as well. The population of Sacramento County grew by 18% in the 1990s and it is the eighth largest county in the state. Kaiser recently announced plans for major expansion of its Sacramento-area facilities and expects to add tens of thousands of new members in the years ahead. It may get a boost toward that growth in 2003 when some of its competitors for state employees will no longer be under contract with CalPERS. It will face competition from Blue Shield, and also from Western Health Advantage, a smaller health plan sponsored by some of the major provider systems in the area. Western Health Advantage is currently the seventh largest health plan in the area, well behind Kaiser, which has nearly 600,000 enrollees in the area. Health Net, Blue Cross and Blue Shield each has more than 200,000 HMO members in the area.

Sacramento is one of the regions where PacifiCare is pushing ahead with its tiering of hospitals. It turns out that only one hospital in the area was not on the original preferred list, namely the University of California at Davis Medical Center (UCDMC). As shown in *Exhibit 36*, UCDMC represents about a third of the hospital revenues in the region and posted a 2000 profit of about $117 million. It also provides the largest share of county indigent care in the area. The Sutter hospitals had a profit of about 6% of patient revenue for the year.

Exhibit 37 compares the hospital systems on their inpatient occupancy rates and payer mix. Inpatient hospital occupancy in the region averaged 67.8% in 2000, higher for Sacramento hospitals than those in the Bay Area. Both the Catholic Healthcare West and Sutter hospitals receive more than 40% of their patient days from Medicare enrollees. UCDMC gets an equal number of patient days from Medi-Cal and Medicare. Kaiser operates two hospitals in the area, and has about the same number of inpatient days as UCDMC.

For Sacramento County only, *Exhibit 38* provides an overview of physician organizations. Among the

Kaiser recently announced plans for major expansion of its Sacramento-area facilities and expects to add tens of thousands of new members in the years ahead.

Exhibit 36

Revenues and Profitability for Sacramento Area Hospitals, 2000

System/Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operations	Total Margin	% of Total Revenue
Catholic Healthcare West		**613,520,501**	**632,994,057**	**(2,194,798)**	**3,442,853**	**0.5%**
Mercy General Hospital	Sacramento	203,339,099	203,683,448	8,160,036	8,216,022	4.0%
Methodist Hospital of Sacramento	Sacramento	62,941,841	73,140,926	(9,457,254)	(8,850,000)	-14.1%
Mercy San Juan Hospital	Carmichael	174,817,345	185,802,277	(6,778,719)	(11,089,000)	-6.3%
Sierra Nevada Memorial Hospital	Grass Valley	60,941,196	57,539,900	4,054,037	13,429,579	22.0%
Woodland Memorial Hospital	Woodland	73,767,207	81,319,529	(4,526,093)	(4,497,000)	-6.1%
Mercy Hospital - Folsom	Folsom	37,713,813	31,507,977	6,353,195	6,233,252	16.5%
Kaiser Foundation*						
Sutter Health		**526,454,725**	**517,624,854**	**22,393,878**	**32,758,043**	**5.9%**
Sutter Medical Center - Sacramento	Sacramento	309,776,496	318,659,282	1,618,143	7,134,150	2.3%
Sutter Roseville Medical Center	Roseville	128,935,014	112,018,204	18,510,028	21,230,200	16.5%
Sutter Auburn Faith Hospital	Auburn	47,331,689	44,999,674	2,985,967	3,824,291	8.1%
Sutter Center For Psychiatry	Sacramento	11,591,590	11,529,934	61,656	118,225	1.0%
Sutter Davis Hospital	Davis	28,819,936	30,417,760	(781,916)	451,177	1.6%
University of California Davis Medical Center	**Sacramento**	**667,201,411**	**590,239,133**	**109,405,908**	**117,132,411**	**17.6%**
Other Hospitals		**267,882,281**	**305,565,374**	**354,759**	**15,642,894**	6.1%
Fremont Hospital - Yuba City	Yuba City	48,400,928	44,780,763	3,984,863	9,711,140	20.1%
Rideout Memorial Hospital	Marysville	64,000,849	61,124,730	3,441,579	7,742,803	12.1%
Marshall Hospital	Placerville	69,180,578	69,699,013	75,484	1,008,362	1.5%
Barton Memorial Hospital	S. Lake Tahoe	49,251,740	53,685,146	(3,702,627)	(2,577,252)	-5.2%
Tahoe Forest Hospital	Truckee	32,118,036	37,229,175	(4,420,401)	(1,331,515)	-4.1%
Shriners Hospital - Northern California	Sacramento	-	33,659,829	1,400,480	1,400,480	
Sierra Valley District Hospital	Loyalton	2,843,573	3,300,141	(424,619)	(311,124)	-10.9%
TOTAL		2,075,058,918	2,046,423,418	129,959,747	168,976,201	7.6%

Data for Kaiser hospitals is incorporated in Exhibit 31 with other northern California hospitals.
Source: Author's analysis of annual hospital report data from office of Statewide Health Planning and Development

largest groups after the Permanente doctors are Sutter Medical Group, the UC Davis Medical Group and the Catholic Healthcare West Medical Foundation, also known as MedClinic of Sacramento. Sutter also administers an IPA of about 570 physicians. Molina Medical Centers has 49 primary care physicians in the area and has expanded its enrollment particularly of Medi-Cal members.

Exhibit 37

Inpatient Occupancy Rates and Payer Mix for Sacramento Hospitals

Hospital	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% County Indigent	% Other Third Parties	% Other Payers
Catholic Healthcare West	**1,328**	**290,261**	**58.0%**	**46.9%**	**23.0%**	**1.0%**	**24.8%**	**4.2%**
Mercy General Hospital	386	88,185	62.4%	54.9%	11.8%	0.6%	32.5%	0.1%
Methodist Hospital of Sacramento	333	74,359	61.0%	26.4%	48.3%	0.5%	10.2%	14.6%
Mercy San Juan Hospital	322	75,826	64.3%	48.8%	21.0%	1.4%	28.4%	0.4%
Sierra Nevada Memorial Hospital	121	27,545	62.2%	70.8%	5.3%	2.1%	19.6%	2.2%
Woodland Memorial Hospital	111	13,453	33.1%	49.8%	18.6%	0.9%	29.4%	1.3%
Mercy Hospital - Folsom	55	10,893	31.3%	45.9%	5.6%	1.7%	45.6%	1.2%
Kaiser	**629**	**142,716**	**62.0%**	**35.4%**	**0.4%**	**0.0%**	**63.4%**	**0.7%**
Kaiser Foundation Sacramento	450	106,356	64.6%	35.4%	0.3%	0.0%	63.5%	0.8%
Kaiser Foundation South Sacramento	179	36,360	55.5%	35.4%	0.6%	0.0%	63.3%	0.6%
Sutter Health	**1,042**	**261,352**	**67.9%**	**42.9%**	**21.2%**	**1.5%**	**31.8%**	**2.7%**
Sutter Medical Center - Sacramento	661	170,274	70.4%	39.6%	27.2%	1.6%	30.4%	1.1%
Sutter Roseville Medical Center	172	43,382	68.9%	50.5%	8.8%	0.5%	30.9%	9.3%
Sutter Auburn Faith Hospital	92	22,656	60.7%	66.3%	6.9%	2.3%	22.1%	2.4%
Sutter Center For Psychiatry	69	17,672	70.0%	27.2%	13.4%	0.1%	57.6%	1.8%
Sutter Davis Hospital	48	7,368	41.9%	39.5%	16.5%	5.7%	35.2%	3.1%
University of California Davis Medical Center	**471**	**138,491**	**80.3%**	**32.4%**	**32.6%**	**2.5%**	**25.8%**	**6.8%**
Other Hospitals	**656**	**157,457**	**57.9%**	**37.3%**	**29.7%**	**1.9%**	**15.6%**	**15.5%**
Fremont Hospital - Yuba City	192	26,308	37.4%	54.4%	16.4%	2.3%	25.3%	1.6%
Rideout Memorial Hospital	118	33,883	65.2%	61.2%	11.9%	5.0%	19.6%	2.2%
Marshall Hospital	103	21,548	57.2%	69.8%	7.9%	2.7%	18.8%	0.9%
Barton Memorial Hospital	83	27,756	64.3%	18.9%	38.1%	0.2%	11.2%	31.6%
Tahoe Forest Hospital	64	18,753	71.2%	16.1%	65.0%	0.1%	14.9%	3.8%
Shriners Hospital - Northern California	40	12,812	58.3%	0.0%	0.0%	0.0%	0.0%	100.0%
Sierra Valley District Hospital	40	12,015	82.1%	3.4%	91.0%	0.0%	0.2%	5.5%
TOTAL	3,497	847,561	67.8%	41.5%	25.3%	1.6%	25.4%	6.2%

Source: Author's analysis of annual hospital report data from office of Statewide Health Planning and Development

Exhibit 38

Sacramento Area Physician Organizations

Name of Physician Organization	Estimated Enrollment	Primary Care Physicians	Specialists	Management Service Organization	Notes
Group Practice					
The Permanente Medical Group, Inc.	354,000	126	383	The Permanente Medical Group, Inc.	
Molina Healthcare	13,280	49	250	Molina Healthcare	
IPA					
Sutter Independent Physicians, a Medical Group	46,300	120	453	Sutter Connect	
River City Medical Group, Inc.	33,000	96	400	River City Medical Group, Inc.	
Hill Physicians Medical Group	102,950	131	308	PriMed Management Consulting, Inc. (Hill Physicians)	Catholic Healthcare West is an investor (27%) in PriMed.
Golden State Select IPA	27,300	163	234	Pacific Partners Management Services, Inc. (Santa Clara IPA)	
California Specialty Independent Medical Associates	4,400	122	211	Pacific Health Alliance	
Medical Foundation					
Sutter Medical Foundation/ Sutter Medical Group	99,700	86	213	Sutter Connect	Includes medical group.
Catholic Healthcare West Medical Foundation/MedClinic of Sacramento	87,750	53	102	Catholic Healthcare	Includes medical group. West Medical Foundation
State/County Faculty/Staff					
University of California Davis Medical Group	93,400	107	254	UC Davis Medical Center	

Central Valley

Hospitals and physicians in the Central Valley have tried all the different approaches to engaging in and with managed care. In 1985 St. Agnes Medical Center, part of the Novi, Michigan-based Trinity system, started its own HMO called ValuCare, along with physicians in the area. The HMO grew and prospered and was bought by PacifiCare in 1994. The hospital and an IPA called Matrix physicians formed Priority Health Services to provide a network to PacifiCare in the area. Priority Health later took out a Knox-Keene limited license so that it could accept full risk from PacifiCare. TakeCare was another prominent HMO in the area, and it contracted with the competing hospitals in town, Community Medical System and its affiliated doctors. When PacifiCare acquired TakeCare in 1996, a lot of business left the Community hospitals and moved to St. Agnes to the Matrix physicians.

In a case of measure for measure, PacifiCare decided to 2001 that it would end its relationship with St. Agnes and Matrix and takes its Fresno business to Community Medical. With the departure of its major contract, Matrix went into bankruptcy. St. Agnes took PacifiCare to court (the case is still ongoing) and some employers and others protested loudly at the prospect of losing access to St. Agnes and its affiliated physicians. As happens after the collapse of a physician group, the disruption was mitigated by many of the physicians migrating to Community Medical and its Sante IPA.

Community Medical acquired the county general hospital, renaming it University Medical Center, and contracted to provide services under the county's indigent care program. The Community Medical hospitals have exclusive contracts with the major HMOs for their HMO business. (Kaiser uses its own hospital.) St. Agnes has recently contracted with Universal Health, a southern California HMO that is trying to expand into the Central Valley. The

Exhibit 39

Revenues and Profitability for Central Valley Hospitals

Systems/ Hospitals	City	Net Patient Revenue	Operating Expenses	Net from Operations	Total Margin	% of Total Revenues
Adventist		**158,706,304**	**168,296,440**	**(5,586,474)**	**(7,640,915)**	**-4.7%**
San Joaquin Community Hospital	Bakersfield	71,388,953	73,382,975	1,126,981	825,357	1.1%
Selma Community Hospital	Selma	13,403,685	16,522,648	(2,869,883)	(2,869,883)	-21.0%
Hanford Community Hospital	Hanford	45,629,655	47,745,198	(1,594,688)	(1,551,893)	-3.3%
Central Valley General Hospital	Hanford	28,284,011	30,645,619	(2,248,884)	(4,044,496)	-14.2%
Brim		**10,351,378**	**12,346,997**	**(1,936,576)**	**(871,908)**	**-7.5%**
Tehachapi Hospital	Tehachapi	5,395,324	6,802,384	(1,396,632)	(661,748)	-10.8%
Corcoran District Hospital	Corcoran	4,956,054	5,544,613	(539,944)	(210,160)	-3.9%
Catholic Healthcare West		**168,734,771**	**229,630,651**	**(58,913,358)**	**(46,386,344)**	**-25.1%**
Bakersfield Memorial Hospital	Bakersfield	83,728,955	104,072,947	(19,505,782)	(8,009,900)	-8.3%
Mercy Westside Hospital	Taft	6,266,316	7,039,043	(761,610)	(398,117)	-6.0%
Mercy Hospital - Bakersfield	Bakersfield	78,739,500	118,518,661	(38,645,966)	(37,978,327)	-46.4%
Community Medical System		**507,727,489**	**470,861,916**	**53,713,513**	**54,144,390**	**10.4%**
Clovis Community Hospital	Clovis	42,889,685	46,225,251	(2,881,079)	(2,673,501)	-6.1%
Fresno Community Hospital & Medical Center	Fresno	331,014,259	305,784,741	35,753,463	35,780,059	10.5%
University Medical Center	Fresno	133,823,545	118,851,924	20,841,129	21,037,832	15.7%
Other Hospitals		**906,574,138**	**902,897,010**	**22,368,783**	**69,834,792**	**7.1%**
Kern Medical Center	Bakersfield	141,415,852	122,012,976	20,789,734	43,294,095	25.9%
Kern Valley Healthcare District	Lake Isabella	17,389,408	20,263,772	(2,690,489)	(2,376,108)	-13.2%
Madera Community Hospital	Madera	39,181,800	38,823,672	644,348	1,788,885	4.4%
Sierra View District Hospital	Porterville	45,909,847	47,731,866	(1,348,842)	(450,257)	-0.9%
Tulare District Hospital	Tulare	29,509,718	31,725,609	(1,853,026)	47,855	0.2%
Delano Regional Medical Center	Delano	30,776,782	31,583,480	(391,230)	1,583,695	4.9%
Ridgecrest Regional Hospital	Ridgecrest	25,514,705	24,407,541	1,259,813	1,828,824	6.9%
Fresno Surgery Center	Fresno	20,487,005	18,750,955	1,751,765	1,046,717	5.1%
Memorial Hospital at Exeter	Exeter	7,538,354	8,941,875	(1,144,434)	(1,143,800)	-14.6%
St. Agnes Medical Center	Fresno	218,539,672	218,394,497	4,469,655	14,808,850	6.3%
Kaiser Foundation - Fresno	Fresno					
Valley Children's Hospital	Madera	174,586,018	181,363,695	(2,408,322)	1,655,081	0.9%
Kaweah Delta District Hospital	Visalia	155,724,977	158,897,072	3,289,811	7,750,955	4.6%
TOTAL		1,752,094,080	1,784,033,014	9,645,888	69,080,015	3.7%

Source: Author's analysis of annual hospital report data from office of Statewide Health Planning and Development

Interviewees said that there is a shortage of capacity and that hospitals are frequently on diversion and not accepting new patients. This capacity problem may be less because of a shortage of beds and more because of a shortage of nurses to staff those beds.

contracts are exclusive for commercial HMO business, but not for PPO business. A firm that wants its employees to have access to all the major hospitals in the area can offer a PPO plan or several different HMOs.

Although many hospitals in the area are part of the major systems like Catholic Healthcare West and Kaiser Foundation, competition tends to take place on a more local level, with hospitals competing separately in Fresno, Bakersfield and so on. Kaiser Foundation also operates a competing 119-bed hospital in Fresno. In Bakersfield, Catholic Healthcare West hospitals compete with Kern Medical Center, owned by the county. Kaweah Delta is one the larger hospitals in the region. It recently decided to close its Exeter Memorial Hospital, about 10 miles away, because of sustained losses. Exeter Memorial, with 80 beds, is one of about 16 small hospitals in the region.

Exhibit 39 compares area hospitals on their revenues and profitability in 2000. Community Medical, which acquired University Medical Center in Fresno from the county a few years ago, had net revenues of $54.1 million. Community Medical exited its risk contracts in 2000 and 2001. Like many other hospitals, it had concluded that it should not attempt to play the insurer's role in managing risk. The Catholic Healthcare West hospitals lost $46.5 million, mostly at Mercy Hospital in Bakersfield. Kern Medical Center, on the other hand, showed a profit of $43.3 million.

As shown in *Exhibit 40*, inpatient occupancy varies widely among hospitals in the region. While the average rate was 60% in 2000, St. Agnes Medical center reported occupancy of almost 72%. Its Fresno competitor, the Community Medical hospitals had about 50% occupancy. Still, interviewees said that there is a shortage of capacity and that hospitals are frequently on diversion and not accepting new patients. This capacity problem may

Exhibit 40

Inpatient Occupancy Rates and Payer Mix for Central Valley Hospitals

Hospital	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% County Indigent	% Other Third Parties	% Other Payers
Adventist	**307**	**78,383**	**62.3%**	**42.1%**	**15.7%**	**1.0%**	**38.0%**	**3.2%**
San Joaquin Community Hospital	178	45,591	70.0%	39.2%	13.1%	0.0%	45.9%	1.8%
Selma Community Hospital	57	7,391	35.4%	48.0%	14.7%	0.0%	30.8%	6.5%
Hanford Community Hospital	42	15,003	68.3%	58.0%	10.2%	3.5%	25.7%	2.6%
Central Valley General Hospital	30	10,398	58.0%	28.1%	35.3%	2.3%	26.4%	7.9%
Brim	**71**	**10,690**	**37.4%**	**22.5%**	**66.8%**	**1.1%**	**6.2%**	**3.4%**
Tehachapi Hospital	39	6,438	38.2%	3.1%	94.1%	0.1%	2.6%	0.2%
Corcoran District Hospital	32	4,252	36.3%	51.9%	25.6%	2.8%	11.6%	8.2%
Catholic Healthcare West	**644**	**156,504**	**66.4%**	**39.6%**	**14.4%**	**0.0%**	**43.9%**	**2.1%**
Bakersfield Memorial Hospital	299	69,937	63.9%	39.0%	2.8%	0.0%	56.4%	1.8%
Mercy Westside Hospital	84	24,137	78.5%	13.8%	78.4%	0.0%	6.0%	1.7%
Mercy Hospital - Bakersfield	261	62,430	65.4%	50.3%	2.5%	0.0%	44.6%	2.6%
Community Medical System	**845**	**154,261**	**49.9%**	**28.5%**	**35.3%**	**7.5%**	**20.2%**	**8.6%**
Clovis Community Hospital	100	15,640	42.7%	32.9%	12.0%	0.2%	52.5%	2.4%
Fresno Community Hospital & Medical Center	745	138,621	50.8%	31.6%	35.9%	5.8%	17.4%	9.3%
University Medical Center	334	49,649	40.7%	18.3%	40.9%	14.7%	17.6%	8.5%
St. Agnes Medical Center	326	92,536	71.7%	61.7%	8.6%	0.0%	28.9%	0.7%
Other Hospitals	**1,837**	**476,802**	**62.6%**	**37.2%**	**34.1%**	**3.3%**	**23.1%**	**2.3%**
Kern Medical Center	174	47,468	65.8%	12.9%	55.2%	20.7%	11.2%	0.0%
Kern Valley Healthcare District	101	31,781	86.0%	15.9%	75.2%	0.2%	3.8%	4.9%
Madera Community Hospital	100	21,288	58.2%	41.3%	25.3%	5.9%	23.6%	3.8%
Sierra View District Hospital	109	23,078	57.8%	53.5%	23.7%	1.6%	16.2%	5.0%
Tulare District Hospital	100	16,049	43.8%	44.4%	25.8%	2.0%	19.5%	8.2%
Delano Regional Medical Center	82	24,814	43.5%	24.3%	62.0%	0.9%	9.9%	2.9%
Ridgecrest Regional Hospital	80	8,170	27.9%	43.8%	14.4%	0.0%	40.1%	1.7%
Fresno Surgery Center	20	3,873	52.9%	24.9%	0.1%	0.0%	73.4%	1.6%
Memorial Hospital At Exeter	80	19,713	67.3%	2.2%	94.7%	0.0%	1.0%	2.1%
Kaiser Foundation Hosp - Fresno	119	31,022	71.2%	43.5%	0.1%	0.0%	55.9%	0.5%
Valley Children's Hospital	242	58,559	66.1%	0.2%	68.7%	0.0%	31.0%	0.2%
Kaweah Delta District Hospital	304	98,451	63.3%	57.1%	14.3%	3.7%	21.0%	3.9%
TOTAL	3,704	876,640	60.0%	35.9%	29.8%	3.5%	27.0%	3.7%

Source: Author's analysis of annual hospital report data from office of Statewide Health Planning and Development

be less because of a shortage of beds and more because of a shortage of nurses to staff those beds. Still, Community Medical had originally expected to close University Medical Center when a major new addition on its downtown campus is complete in 2004. Under the current circumstances, it may keep University Medical Center open.

About 35% of Community's inpatient days were paid through Medicaid, and many of the hospitals had a relatively high proportion of Medi-Cal patients. Its three hospitals have historically served the Medi-Cal and indigent patients in the area. However, the mix of profitable commercial and Medicare business gives it more stability and a better revenue base than many other county hospitals, who have many Medi-Cal and indigent patients and few commercial and Medicare patients.

Exhibit 41 presents an overview of physician organizations in the area. The Kaiser medical groups in the area (from both the north and south) are the largest in the region. The Sutter Gould Medical Foundation in Modesto includes both a medical group and an IPA. The Foundation was established

Exhibit 41

Central Valley Physician Organizations

Name of Physician Organization	Estimated Enrollment	Primary Care Physicians	Specialits	Management Service Organization	Notes
Group Practice					
The Permanente Medical Group, Inc.	281,160	197	377	The Permanente Medical Group, Inc.	
Southern California Permanente Medical Group	139,480	82	192	Southern California Permanente Medical Group	
Lodi Primary Care Medical Associates	1,000	24	239	Lodi Primary Care Medical Associates	
Bakersfield Family Medical Center	70,000	91	96	Heritage Provider Network	Includes IPA type panel.
IPA					
Sante Community Physicians IPA Medical Corp	159,800	241	566	Sante Health System, Inc.	
Medcore Medical Group/Omni IPA	16,000	174	330	Medcore Management, Inc.	
Valley Physicians of Central California	33,800	144	295	Medical Pathways Management Corp	
Allcare IPA	30,200	119	205	Independent Physicians Medical Associates, Inc. (Allcare IPA)	
Delta IPA Medical Group, Inc.	69,000	125	138	Delta IPA Medical Group, Inc.	
Golden Empire Managed Care, a Medical Group, Inc.	39,000	77	167	Managed Care Systems of Kern County	
Key Medical Group, Inc.	9,500	67	175	Foundation for Medical Care of Tulare & Kings Counties, Inc.	
Merced-Mariposa IPA Medical Group, Inc.	3,200	106	94	Foundation for Medical Care For Merced County	
ChildNet Medical Associates, Inc.	3,700	42	106	Valley Children's Health System, Madera	
Central Valley Medical Group	18,000	60	73	North American Medical Management, Inc.	
TruCare Medical Group, Inc.	2,300	34	96	Stanislaus Foundation or Medical Care	
Delano Regional Medical Group, Inc.	3,200	22	64	Managed Care Systems of Kern County	
Turlock Primary Care Associates Medical Group	17,600	28	48	HealthBridge	
Medical Foundation					
Sutter Gould Medical Foundation	98,050	135	307	Sutter Connect	Sutter Health is sole corporate member of Gould Medical Foundation. Includes medical group and IPA.
Catholic Healthcare West Medical Foundation/ St. Joseph's Provider Network	15,500	71	150	St. Joseph's Medical Resources	Includes medical group and IPA.
State/County Faculty/Staff					
San Joaquin Faculty Medical Group	8,050	35	72	San Joaquin County Health Care Services	
Central California Faculty Medical Group	5,500	29	69	Central California Faculty Medical Group	

The decline of Medicare plans in the area has been a particular concern. Blue Cross and Health Net dropped their plans in 2001, which affected 3,000 seniors in the region. That left two Medicare+Choice plans in Fresno County (PacifiCare and Kaiser Permanente) and only Kaiser offers prescription coverage as part of its package in the county.

in 1986 and affiliated with Sutter Health in 1993. It has over 150 physicians.

The Sante IPA is affiliated with Community Medical in Fresno and has operated successfully in a capitated environment. It is capitated for more than 130,000 commercial lives. Another large physician group is the Bakersfield Family Medical Center. It has contracts with all the major payers in the area, including Aetna, Blue Cross, Blue Shield, Health Net, and PacifiCare, for both commercial and Medicare business.

A high percentage of people in the Central Valley do not have health insurance but earn too much to qualify for Medi-Cal or Healthy Families. Some hospitals have challenged the adequacy of Medi-Cal payments, and in the case of Madera Community Hospital, forced the issue with the Department of Health Services. In 2001, Madera Community let its Medi-Cal contract lapse, meaning that recipients would have to travel to other hospitals for inpatient care. Community Medical Centers and a group of physicians joined together to finance development of a for-profit cardiac hospital in north Fresno. There is already a cardiac hospital in Bakersfield owned by MedCath.

Blue Cross is the largest health plan in the area, not just for commercial groups but also for Medi-Cal in Fresno, Kern, Tulare and other counties. At the end of 2000, an estimated 540,000 Blue Cross HMO enrollees lived in the region, including about 165,000 Medi-Cal beneficiaries. Kaiser Permanente is the second largest HMO with about 150,000 commercial and Medicare lives. Kern Health Systems, a county operated Medi-Cal plan, has about 50,000 members. Aetna U.S. Healthcare had a smaller presence and has announced that it will end its HMO plan in five counties in the Central Valley.

The decline of Medicare plans in the area has been a particular concern. Blue Cross and Health Net dropped their plans in 2001, which affected 3,000 seniors in the region. That left two Medicare+Choice plans in Fresno County (PacifiCare and Kaiser Permanente) and only Kaiser offers prescription coverage as part of its package in the county. About 65,000 seniors were in Medicare+Choice plans at the end of 2000, but that has since dropped. At the beginning of 2001, federal authorities increased payment rates across the country. Those increases were not enough to get any of the plans to reconsider their exit from Fresno County or to provide seniors with improved benefits.

Los Angeles and Orange Counties

Exhibit 42 presents an estimate of relative market share for the largest HMOs in the Los Angeles and Orange County area. By these estimates, Kaiser Permanente and Blue Cross are neck and neck, each with about 22% of the 2.1 million HMO members in this area. By this estimate, 63% of the population is enrolled in an HMO. PacifiCare and Health Net are in the next tier of HMOs, each with between 10 and 12%.

Three of the top 10 plans in the area deal primarily or completely with Medi-Cal. Care 1st is one of the partners that participates in Medi-Cal managed care with L.A. Care. (Note that L.A. Care is not included in the market share analysis.) Universal Care is in Orange and San Diego counties and is begin to expand into Fresno. CalOptima is the county-organized health plan for Medi-Cal products.

There has been some consolidation of health plan enrollment in the area. United HealthCare had much of its HMO enrollment in the south and transitioned many of those groups to Blue Shield. Two plans, Maxicare and Tower Health, have gone bankrupt and closed. Care 1st and other health plans picked up many of their Medi-Cal enrollees. UHP is under state supervision, but has pulled back from some of its operations, including a contract for Medi-Cal enrollees in Orange County.

About half a million seniors were in Medicare+Choice HMOs at the end of 2000. PacifiCare Secure Horizons remains the largest plan, with about 201,000 members in Los Angeles and Orange Counties. Kaiser Permanente is second in size, with about 153,000 senior enrollees in the area.

Seniors in this part of the state still have numerous options for Medicare+Choice HMOs, although the stability of some of those plans is open to question. Still, seniors have seen a steady increase in the amount of enrollee co-premium and erosion in the value of the supplemental benefits that came with the plans. A comparison of the plans in this and other parts of the state can be found at the new Medicare web site developed by the California HealthCare Foundation (http://www.calmedicare.org).

From the provider point of view, many hospitals now think they do better receiving per diem payments for seniors enrolled in traditional Medicare compared to the payments that they receive through their HMO contracts. In their view, Medicare is not a bad payer, and will cover costs and allow a small profit. That is why hospitals have been less willing to take HMO contracts for Medicare. Physicians don't necessarily see it that way and, for the time being, seem to think that they are better off with their HMO contracts.

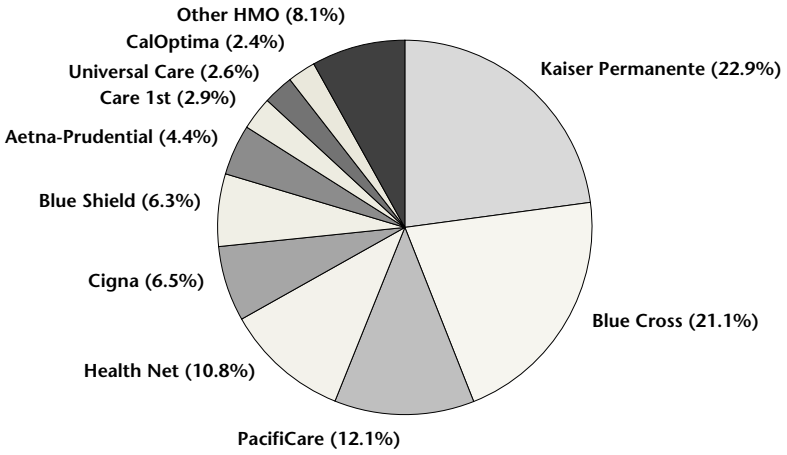
Medi-Cal managed care enrollment in Los Angeles County has grown from 1.1 million at the end of 1999 to 1.3 million in June 2001. Los Angeles has a two-plan arrangement for Medi-Cal. L.A. Care, the county plan, subcontracts its entire Medi-Cal enrollment to partner HMOs. Health Net is the commercial competing plan, and it contracts out about half of its enrollees to Molina Healthcare and Universal Care.

Orange County, working with private organizations, has launched several initiatives to try to address problems of access to health care and affordability of insurance. One program resulted from a county referendum in which voters supported a proposal to designate some tobacco funds to help community organizations improve access to health care. These are the funds that

Many hospitals now think they do better receiving per diem payments for seniors enrolled in traditional Medicare compared to the payments that they receive through their HMO contracts. In their view, Medicare is not a bad payer, and will cover costs and allow a small profit.

Exhibit 42

Estimated Market Share for Los Angeles HMOs



came to Orange County (as well as other counties and the state) as part of the settlement of lawsuits brought by states against tobacco companies.

Los Angeles and Orange Counties cover a huge amount of territory and a population of 12.4 million. That is more than one-third of the state's residents. Even some of the large hospital systems that have formed in the region have a relatively small presence because they cover only a portion of the area. *Exhibit 43* is a map of the region, showing most of the hospitals and their system affiliations as of 2000. While

Exhibit 43

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

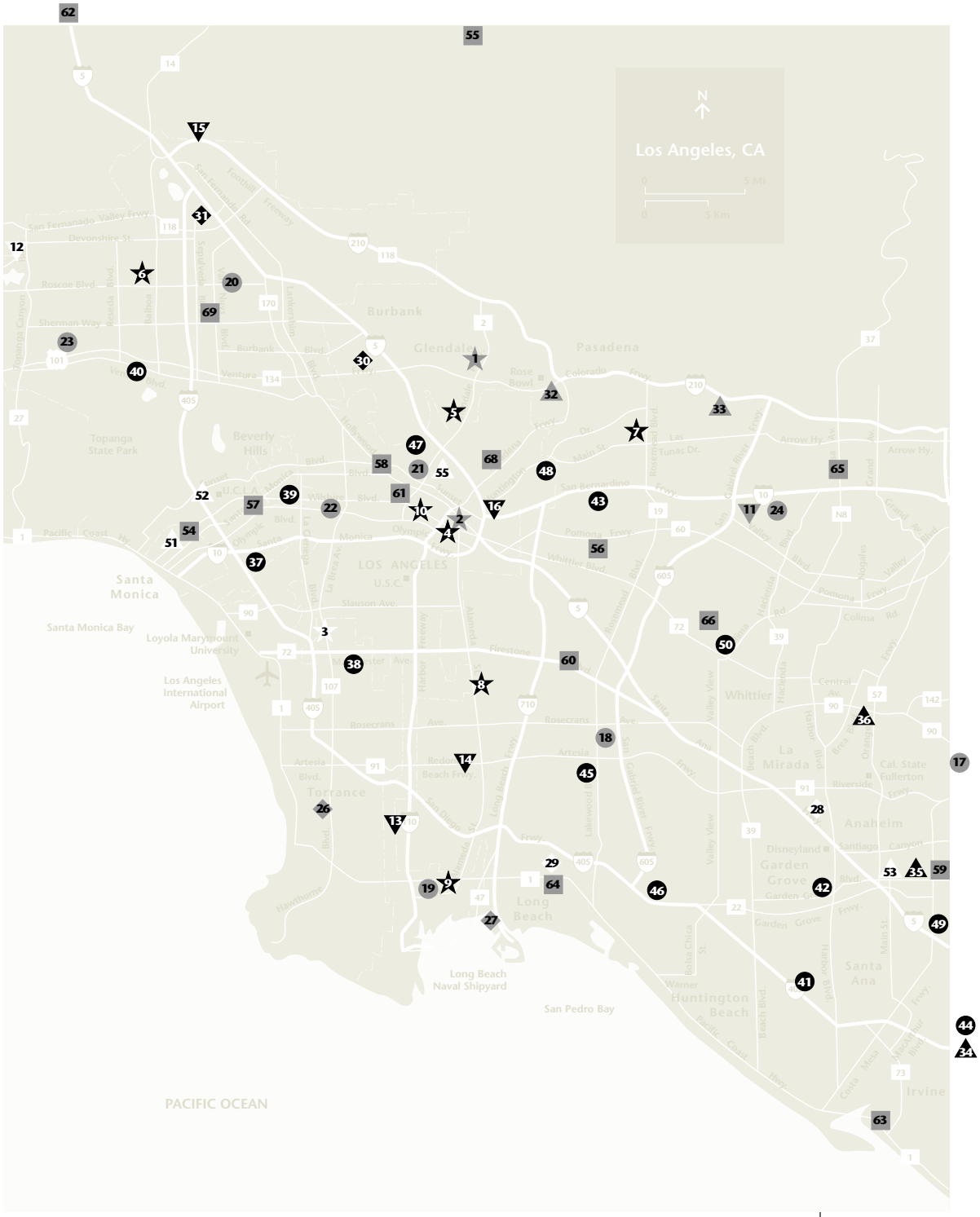
System/Hospitals	City
▲ **Southern California Healthcare Systems**	
32 Huntington Memorial Hospital	Pasadena
33 Methodist Hospital Southern Cal	Arcadia
▲ **St. Joseph**	
34 Mission Hospital Regional	Mission Viejo
35 St. Joseph Hospital - Orange	Orange
36 St. Jude Medical Center	Fullerton
● **Tenet Health**	
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

Tenet covers both counties, Catholic Healthcare West has locations in many parts of Los Angeles County but not in Orange County. Two systems, St. Joseph and Memorial, compete against each other and Tenet in Orange County. St. Joseph also has affiliated hospitals in some other parts of the state.

The exhibit lists hospitals in 16 systems, which range from large, investor-owned systems, to public hospital networks, to religious systems, to groups of non-profit community hospitals. The biggest system in the area is the Tenet hospitals. There are 27 Tenet hospitals in the region, including 12 in Orange County. Two more hospitals have joined the Tenet system with the sale of the Daniel Freeman hospitals by Carondolet. Tenet has sought to close inpatient operations at one of them. Tenet hospitals recorded more than 1.1 mil-

Exhibit 43

Los Angeles Area Hospitals and Systems



lion inpatient days in 2000. Most Tenet locations are small community hospitals, but its southern California region also includes the USC University Hospital.

Exhibit 44 compares the hospitals and systems on their revenues and profitability in 2000. The hospitals earned total profits of $962.6 million although most of that came from non-operating revenues such as investments, government support and phil-

Exhibit 44

Revenues and Profitability for Los Angeles Area Hospitals

System/ Hospitals	City	Net Patient Revenues	Operating Exoenses	Net From Operations	Total Margin	% of Total Revenues
Adventist		**308,908,641**	**315,704,735**	**2,844,418**	**24,508,389**	**7.1%**
Glendale Adventist Medical Center	Glendale	137,502,698	142,533,561	(1,145,965)	2,612,184	1.8%
White Memorial Medical Center	Los Angeles	137,105,854	128,244,294	13,628,175	31,271,458	19.4%
Carondolet		**177,521,294**	**198,054,678**	**(15,192,838)**	**(14,726,633)**	**-7.9%**
Daniel Freeman Marina Hospital	Marina Del Rey	37,956,133	43,115,987	(3,611,271)	(3,491,188)	-8.6%
Daniel Freeman Memorial Hospital	Inglewood	114,072,927	126,004,872	(8,594,751)	(8,875,851)	-7.5%
Catholic Healthcare West		**1,300,233,265**	**1,330,354,493**	**(8,097,395)**	**24,997,785**	**1.8%**
California Hospital Medical Center	Los Angeles	113,121,197	114,588,326	2,965,149	3,193,398	2.7%
Glendale Memorial Hospital	Glendale	125,389,603	121,410,893	5,663,367	6,530,946	5.1%
Long Beach Community Medical Center	Long Beach	72,871,373	82,348,905	(8,460,658)	(9,352,211)	-12.7%
Northridge Hospital Medical Center	Northridge	165,053,418	162,565,105	3,929,605	6,748,118	4.0%
Robert F. Kennedy Medical Center	Hawthorne	54,738,087	52,985,415	1,871,129	579,593	1.1%
San Gabriel Valley Medical Center	San Gabriel	81,991,349	80,813,289	2,471,939	2,330,939	2.8%
St. Francis Medical Center	Lynwood	149,585,582	145,501,364	7,602,702	22,393,569	13.3%
St. Mary Medical Center	Long Beach	111,509,349	121,710,890	(8,480,065)	(3,858,782)	-3.3%
St. VIncent Medical Center	Los Angeles	118,628,456	113,254,516	7,012,677	16,420,513	12.3%
Citrus Valley		**215,356,320**	**241,467,585**	**(21,676,483)**	**(19,627,648)**	**(0)**
Citrus Valley Medical Center-Q.V. Campus	West Covina	175,126,124	199,048,327	(20,407,502)	(18,564,889)	-10.2%
County of Los Angeles		**1,153,860,324**	**993,367,800**	**179,488,646**	**442,773,970**	**30.8%**
Los Angeles County/Harbor/ UCLA Medical Center	Torrance	385,726,491	280,128,986	113,825,433	167,088,561	37.3%
Los Angeles County/Martin Luther King Jr./ Drew Medical Center	Los Angeles	335,748,194	317,360,439	21,462,716	117,984,590	27.1%
Los Angeles County/Olive View Medical Center	Sylmar	234,524,544	199,512,431	38,164,732	89,890,987	30.9%
Los Angeles County/Rancho Los Amigos National Rehab Center	Downey	160,218,472	145,831,872	17,031,644	60,435,016	29.3%
HCA: The Healthcare Company		**164,332,514**	**171,133,898**	**(5,059,752)**	**(2,912,610)**	**-1.7%**
West Hills Hospital & Medical Center	West Hills	77,875,361	82,099,803	(3,115,218)	(3,083,685)	-3.8%
West Anaheim Medical Center	Anaheim	45,187,473	43,892,075	1,594,533	1,594,533	3.5%
Kaiser Foundation Southern Region	**Pasadena**	-	**1,577,817,265**	**168,758,845**	**168,758,845**	**9.7%**
Little Company of Mary		**251,934,109**	**248,944,372**	**6,820,045**	**15,679,686**	**5.9%**
Little Company of Mary Hospital	Torrance	149,532,324	144,992,162	6,585,820	10,490,021	6.7%
San Pedro Peninsula Hospital	San Pedro	80,056,479	81,341,890	255,022	4,493,732	5.2%
Memorial Health Services		**510,628,093**	**646,574,139**	**(78,945,985)**	**(78,149,943)**	**-13.4%**
Anaheim Memorial Medical Center	Anaheim	90,965,315	125,288,271	(32,925,329)	(33,212,388)	-35.2%
Long Beach Memorial Medical Center	Long Beach	246,924,367	290,937,145	(452,975)	(2,105,579)	-0.7%
Saddleback Memorial Medical Center	Laguna Hills	127,882,330	138,774,883	737,673	2,100,512	1.5%
Pacific Health Corporation		**68,044,661**	**64,706,738**	**3,618,750**	**1,830,222**	**2.7%**
Paracelsus Health Care Corporation		**118,591,443**	**118,717,984**	**407,649**	**(4,137,990)**	**-3.5%**
Los Angeles Community Hospital	Los Angeles	46,566,988	41,818,055	4,857,165	5,086,565	10.8%
Sisters of Providence		**275,198,840**	**280,658,151**	**(546,487)**	**2,885,760**	**1.0%**
Providence St. Joseph Medical Center	Burbank	180,337,825	183,691,848	217,092	3,097,814	1.7%
Providence Holy Cross Medical Center	Mission Hills	94,861,015	96,966,303	(763,579)	(212,054)	-0.2%
Southern California Healthcare Systems		**331,908,748**	**358,942,018**	**(18,122,617)**	**12,238,270**	**3.3%**
Huntington Memorial Hospital	Pasadena	208,271,830	232,473,396	(16,758,878)	14,783,249	5.9%
Methodist Hospital off Southern California	Arcadia	102,801,382	103,869,624	342,521	(838,719)	-0.8%
St. Joseph		**590,231,863**	**619,933,421**	**15,551,676**	**47,295,019**	**6.9%**
Mission Hospital Regional Medical Center	Mission Viejo	154,841,290	156,029,291	783,910	17,648,811	9.6%
St. Joseph Hospital - Orange	Orange	270,588,531	298,947,256	10,124,619	21,111,405	6.4%
St. Jude Medical Center	Fullerton	164,802,042	164,956,874	4,643,147	8,534,803	4.9%

anthropy. As a group they made some money on operations, although seven of the systems and a number of the nonaffiliated hospital posted operating losses. The Tenet Health hospitals had profits of $220 or about 11% of net patient revenues. The Kaiser Foundation hospitals (including San Diego) were also highly profitable in 2000. On the other hand, the Memorial Health Services group in Orange County and Long Beach had losses of $79 million. Cedars-Sinai is the largest independent

Exhibit 44, continued

Revenues and Profitability for Los Angeles Area Hospitals

System/ Hospitals	City	Net Patient Revenues	Operating Exoenses	Net From Operations	Total Margin	% of Total Revenues
Tenet Health		**1,976,341,111**	**1,764,633,239**	**222,584,779**	**214,088,012**	**10.6%**
Brotman Medical Center	Culver City	76,461,934	78,014,018	(990,701)	(942,633)	-1.2%
Centinela Hospital Medical Center	Inglewood	145,881,776	130,571,479	15,920,169	16,149,303	11.0%
Century City Hospital	Los Angeles	61,891,488	62,735,168	(643,508)	(640,716)	-1.0%
Fountain Valley Regional Hospital	Fountain Valley	170,487,153	143,865,272	27,063,778	24,936,515	14.6%
Encino Tarzana Regional Medical Center - Tarzana	Tarzana	124,675,834	107,802,361	17,553,845	12,716,665	10.1%
Garden Grove Hospital & Medical Center	Garden Grove	61,893,488	51,371,565	10,718,023	11,127,228	17.6%
Garfield Medical Center	Monterey Park	116,338,996	83,050,631	33,790,966	33,269,837	27.8%
Irvine Medical Center	Irvine	59,508,559	64,027,638	(4,323,250)	(4,628,958)	-7.7%
Lakewood Regional Medical Center - South	Lakewood	65,964,991	61,275,049	4,995,589	4,937,202	6.8%
Los Alamitos Medical Center	Los Alamitos	68,355,508	60,248,520	8,406,462	8,530,665	11.8%
Queen of Angels-Hollywood Presbyterian Medical Center	Los Angeles	141,126,954	110,099,621	31,747,202	31,941,233	22.5%
Santa Ana Hospital Medical Center	Santa Ana	19,059,970	20,010,683	(465,629)	86,618	0.4%
St. Luke Medical Center	Pasadena	39,700,332	42,330,607	(2,329,463)	(2,551,232)	-6.4%
USC University Hospital	Los Angeles	180,845,768	151,030,528	31,147,869	32,846,954	17.7%
Western Medical Center-Anaheim	Anaheim	45,593,011	48,341,456	(2,444,244)	(2,409,362)	-5.3%
Western Medical Center-Santa Ana	Santa Ana	119,956,142	109,638,615	11,204,169	11,964,070	9.8%
Whittier Hospital Medical Center	Whittier	71,251,726	62,239,474	9,470,525	7,734,820	10.7%
University of California		**910,299,573**	**922,803,941**	**48,641,693**	**52,733,822**	**5.4%**
Santa Monica - UCLA Medical Center	Santa Monica	82,292,437	104,549,533	(14,992,300)	(13,434,911)	-14.7%
UCLA Medical Center	Los Angeles	551,257,190	592,754,777	6,888,953	9,582,417	1.6%
University of California Irvine Medical Center	Orange	276,749,946	225,499,631	56,745,040	56,586,316	20.0%
Other Hospitals		**3,546,693,644**	**3,889,626,594**	**(109,851,305)**	**127,097,798**	**3.1%**
Cedars-Sinai Medical Center	Los Angeles	744,912,151	830,072,018	(59,707)	(3,963,004)	-0.5%
Pomona Valley Hospital Medical Center	Pomona	187,941,123	203,771,416	(10,574,577)	499,029	0.2%
St. John's Hospital and Health Center	Santa Monica	169,126,409	169,431,282	2,727,293	21,660,685	10.0%
Torrance Memorial Medical Center	Torrance	185,115,308	178,206,297	6,909,011	20,850,549	10.5%
Hoag Memorial Hospital Presbyterian	Newport Beach	291,829,608	292,771,017	16,691,755	72,231,090	19.7%
Good Samaritan Hospital	Los Angeles	153,635,080	173,184,331	(17,130,566)	(3,488,991)	-2.1%
Children's Hospital of Los Angeles	Los Angeles	209,940,068	284,886,776	(2,389,722)	47,016,349	14.8%
Antelope Valley Hospital Medical Center	Lancaster	132,914,970	130,848,194	5,267,891	9,332,745	6.6%
Presbyterian Intercommunity Hospital	Whittier	138,531,036	137,432,477	2,084,362	18,688,644	12.0%
Downey Community Hospital	Downey	74,615,045	93,576,505	(18,037,041)	(5,431,154)	-6.1%
Children's Hospital of Orange County	Orange	118,332,699	134,432,787	3,609,162	6,221,972	4.4%
Valley Presbyterian Hospital	Van Nuys	89,296,881	93,146,068	(2,841,931)	796,597	0.8%
Pacific Hospital of Long Beach	Long Beach	79,477,549	78,127,560	4,092,831	2,748,347	3.3%
Beverly Hospital	Montebello	67,024,801	75,260,346	(7,906,353)	(7,355,875)	-10.8%
Henry Mayo Newhall Memorial Hospital	Valencia	70,981,352	88,813,538	(10,242,846)	(9,914,790)	-12.6%
Long Beach Community Medical Center	Long Beach	72,871,373	82,348,905	(8,460,658)	(9,352,211)	-12.7%
Verdugo Hills Hospital	Glendale	47,282,674	49,707,638	(2,117,024)	(1,334,570)	-2.8%
Coast Plaza Doctors Hospital	Norwalk	43,998,772	38,087,898	6,366,653	6,098,339	13.4%
Specialty Hospital of Southern California	La Mirada	46,427,155	47,083,006	(579,123)	(579,123)	-1.2%
USC Kenneth Norris Jr. Cancer Hospital	Los Angeles	57,666,027	57,784,950	11,125	524,488	0.9%
Sherman Oaks Hospital & Health Center	Sherman Oaks	48,619,601	49,424,707	(467,520)	(248,436)	-0.5%
Los Angeles Community Hospital	Los Angeles	46,566,988	41,818,055	4,857,165	5,086,565	10.8%
Granada Hills Community Hospital	Granada Hills	31,714,141	36,440,738	(4,586,479)	650,103	1.8%
Pacifica Hospital of The Valley	Sun Valley	38,798,609	49,031,547	(9,437,550)	(9,435,550)	-23.8%
Anaheim General Hospital	Anaheim	26,094,091	29,440,984	(3,264,695)	(2,535,453)	-9.7%
TOTAL		10,989,784,870	12,820,637,110	342,581,946	962,598,932	8.76%

Exhibit 45

Inpatient Occupancy Rates and Payer Mix for Los Angeles Area Hospitals

Hospital	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% County Indigent	% Other Third Parties	% Other Payers
Adventist	**679**	**207,527**	**60.6%**	**49.1%**	**29.5%**	**0.0%**	**18.7%**	**2.7%**
Glendale Adventist Medical Center	368	97,381	72.9%	56.0%	24.2%	0.0%	18.3%	1.5%
White Memorial Medical Center	233	83,898	61.1%	44.8%	43.2%	0.0%	9.3%	2.7%
Carondolet	**592**	**120,184**	**55.5%**	**49.4%**	**26.0%**	**0.0%**	**20.8%**	**3.7%**
Daniel Freeman Marina Hospital	153	32,102	57.3%	52.8%	13.0%	0.0%	26.4%	7.8%
Daniel Freeman Memorial Hospital	345	71,611	56.7%	50.2%	28.4%	0.0%	20.3%	1.1%
Santa Marta Hospital	94	16,471	47.9%	39.9%	40.8%	0.0%	12.2%	7.1%
Catholic Healthcare West	**3,600**	**812,201**	**57.4%**	**46.8%**	**27.3%**	**0.1%**	**23.3%**	**2.4%**
California Hospital Medical Center	249	61,542	53.7%	27.7%	56.1%	0.0%	12.5%	3.7%
Glendale Memorial Hospital & Health Center	334	85,754	70.1%	60.2%	24.8%	0.0%	11.5%	3.5%
Long Beach Community Medical Center	143	42,139	44.1%	56.4%	18.6%	0.0%	21.0%	4.1%
Northridge Hospital Medical Center	414	80,703	53.3%	45.1%	16.0%	0.0%	37.8%	1.2%
Northridge Hospital Medical Center-Sherman	209	38,124	49.8%	50.4%	36.2%	0.0%	11.8%	1.6%
Robert F. Kennedy Medical Center	201	37,652	51.2%	49.3%	37.9%	0.0%	11.3%	1.5%
San Gabriel Valley Medical Center	274	61,591	61.4%	56.9%	12.6%	0.1%	28.6%	1.8%
St. Francis Medical Center	353	92,735	71.8%	36.7%	50.7%	0.1%	9.9%	2.6%
St. Mary Medical Center	251	83,608	53.7%	58.8%	22.2%	0.0%	14.0%	5.0%
St. Vincent Medical Center	181	58,684	64.1%	54.0%	14.1%	0.0%	30.1%	1.8%
Citrus Valley Medical	**645**	**143,894**	**61.0%**	**39.9%**	**22.2%**	**0.0%**	**37.2%**	**0.8%**
Citrus Valley Medical Center- Campus	539	125,935	63.8%	39.2%	23.6%	0.0%	36.4%	0.8%
Foothill Presbyterian Hospital	106	17,959	46.3%	44.6%	11.9%	0.0%	42.6%	0.8%
HCA: The Healthcare Company	**489**	**118,135**	**48.9%**	**49.2%**	**5.7%**	**1.1%**	**36.9%**	**7.1%**
Columbia Las Encinas Hospital	78	25,392	51.0%	24.1%	8.6%	0.0%	43.4%	23.9%
West Hills Hospital & Medical Center	236	41,309	47.8%	56.4%	1.0%	0.0%	40.2%	2.3%
West Anaheim Medical Center	108	32,808	50.7%	52.5%	4.4%	3.1%	38.4%	1.6%
County of Los Angeles	**1,131**	**374,912**	**69.0%**	**8.6%**	**58.5%**	**25.7%**	**5.0%**	**2.2%**
Los Angeles County/Harbor/UCLA Medical Center	327	119,781	71.3%	10.0%	49.3%	35.7%	4.3%	0.8%
Los Angeles County/Martin Luther King Jr./Drew Medical Center	253	86,197	63.0%	11.3%	58.6%	18.3%	11.6%	0.2%
Los Angeles County/Olive View Medical Center	224	67,193	70.3%	4.8%	62.4%	31.4%	0.8%	0.6%
Los Angeles County/Rancho Los Amigos National Rehab Center	207	74,086	75.0%	9.2%	64.6%	15.6%	3.2%	7.4%
Kaiser Foundation Southern Region	**1,882**	**417,844**	**60.7%**	**6.6%**	**74.7%**	**30.0%**	**0.0%**	**57.4%**
Kaiser Foundation - Anaheim	150	37,403	68.1%	29.9%	0.6%	0.0%	0.0%	69.5%
Kaiser Foundation - Bellflower	271	64,777	65.3%	29.1%	0.9%	0.0%	0.0%	70.0%
Kaiser Foundation - Harbor City	193	39,060	55.3%	41.8%	0.5%	0.0%	0.0%	57.7%
Kaiser Foundation - Panorama City	192	41,534	59.1%	45.9%	0.2%	0.0%	0.0%	53.9%
Kaiser Foundation - Sunset	547	119,306	59.6%	35.6%	0.9%	0.0%	0.0%	63.5%
Kaiser Foundation - West LA	212	39,135	50.4%	44.7%	0.6%	0.0%	0.0%	54.6%
Kaiser Foundation - Woodland Hills	154	43,592	77.3%	44.9%	0.6%	0.0%	0.0%	54.5%
Kaiser Foundation - Baldwin Park	163	33,037	55.4%	22.0%	0.5%	0.0%	0.0%	77.5%
Little Company of Mary	**1,212**	**258,110**	**65.6%**	**36.6%**	**30.0%**	**0.0%**	**26.0%**	**7.4%**
Bay Harbor Hospital	320	30,464	48.1%	11.1%	62.1%	0.0%	24.5%	2.3%
Little Company of Mary Hospital	383	112,382	78.1%	42.3%	14.2%	0.0%	34.5%	9.1%
San Pedro Peninsula Hospital	509	115,264	61.9%	37.9%	37.0%	0.0%	18.0%	7.1%
Memorial Health Services	1,392	266,317	52.3%	40.4%	8.2%	0.3%	46.5%	4.6%
Anaheim Memorial Medical Center	374	56,784	41.5%	36.9%	9.3%	0.3%	47.2%	6.3%
Long Beach Memorial Medical Center	570	136,562	65.5%	39.9%	11.4%	0.0%	43.6%	5.1%
Orange Coast Memorial Medical Center	230	20,106	23.9%	66.0%	1.8%	0.2%	29.7%	2.3%
Saddleback Memorial Medical Center	218	52,865	66.3%	35.9%	1.4%	1.0%	59.5%	2.1%
Pacific Health Corp	**363**	**60,267**	**45.4%**	**38.0%**	**51.6%**	**0.0%**	**4.7%**	**5.7%**
Paracelsus Health Care Corporation	**431**	**77,593**	**48.7%**	**49.6%**	**33.1%**	**0.0%**	**13.3%**	**4.0%**
Orange County Community Hospital - Buena Park	138	14,997	29.7%	78.2%	12.1%	0.0%	7.6%	2.1%
Sisters of Providence	**617**	**178,558**	**71.6%**	**57.4%**	**16.5%**	**0.2%**	**23.9%**	**2.0%**
Providence Saint Joseph Medical Center	362	112,056	71.9%	60.6%	13.4%	0.0%	23.7%	2.3%
Providence Holy Cross Medical Center	255	66,502	71.3%	52.1%	21.7%	0.6%	24.1%	1.4%

Exhibit 45, continued

Inpatient Occupancy Rates and Payer Mix for Los Angeles Area Hospitals, continued

Hospital	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% County Indigent	% Other Third Parties	% Other Payers
Southern California Healthcare Systems	**638**	**206,476**	**52.2%**	**56.8%**	**15.8%**	**0.1%**	**24.3%**	**3.0%**
Huntington Memorial Hospital	312	127,081	66.5%	54.0%	16.4%	0.1%	25.6%	3.9%
Huntington East Valley Hospital	118	15,412	35.7%	50.7%	36.3%	0.0%	11.1%	1.9%
Methodist Hospital of Southern California	208	63,983	39.7%	63.8%	9.7%	0.0%	25.0%	1.5%
St. Joseph	**949**	**244,535**	**70.4%**	**44.9%**	**7.1%**	**1.3%**	**44.2%**	**2.5%**
Mission Hospital Regional Medical Center	254	66,668	71.7%	49.6%	5.5%	1.8%	40.5%	2.5%
St. Joseph Hospital - Orange	365	97,144	72.7%	39.0%	9.0%	1.0%	47.8%	3.2%
St. Jude Medical Center	330	80,723	66.8%	48.2%	6.3%	1.2%	42.9%	1.5%
Tenet Health	**5,289**	**1,114,154**	**57.6%**	**41.1%**	**25.8%**	**0.7%**	**29.9%**	**2.5%**
Queen of Angels-Hollywood Presbyterian Medical Center	413	114,212	75.6%	37.7%	49.8%	0.0%	9.6%	2.9%
Fountain Valley Regional Hospital Euclid	405	91,386	61.7%	38.6%	23.6%	2.3%	34.6%	0.9%
Centinela Hospital Medical Center	377	76,895	55.7%	48.4%	21.0%	0.0%	28.5%	2.1%
USC University Hospital	284	61,198	58.9%	45.3%	6.9%	0.0%	45.8%	2.0%
Western Medical Center-Santa Ana	274	51,484	51.3%	29.4%	16.5%	7.2%	40.1%	6.8%
Brotman Medical Center	246	64,144	71.2%	61.5%	20.0%	0.0%	16.2%	2.2%
Encino Tarzana Regional Medical Center- Tarzana	227	57,808	69.6%	36.3%	12.9%	0.0%	48.1%	2.6%
Midway Hospital Medical Center	225	26,704	32.4%	68.6%	6.1%	0.0%	24.1%	1.3%
Garfield Medical Center	214	67,807	86.6%	40.2%	32.0%	0.0%	26.4%	1.4%
Western Medical Center-Anaheim	193	32,618	46.2%	29.2%	23.5%	1.0%	43.2%	3.0%
Suburban Medical Center	182	33,503	50.3%	18.5%	60.3%	0.0%	19.1%	2.0%
Whittier Hospital Medical Center	181	45,499	68.7%	15.8%	24.5%	0.0%	56.5%	3.3%
Coastal Communities Hospital	177	32,962	50.9%	30.1%	58.3%	0.1%	7.1%	4.4%
Irvine Medical Center	176	30,348	47.1%	55.8%	1.2%	1.0%	40.6%	1.4%
Los Alamitos Medical Center	173	43,276	68.3%	45.6%	3.4%	0.2%	49.6%	1.2%
Lakewood Regional Medical Center - South	161	41,821	71.0%	43.2%	8.0%	0.0%	47.9%	0.9%
Encino Tarzana Regional Medical Center - Encino	151	29,165	52.8%	66.6%	21.5%	0.0%	10.3%	1.6%
University of California	**1,266**	**304,791**	**65.8%**	**34.5%**	**22.0%**	**2.7%**	**36.4%**	**4.5%**
Santa Monica – UCLA Medical Center	225	53,639	65.1%	57.8%	7.6%	0.0%	31.6%	3.0%
UCLA Medical Center	658	157,693	65.5%	34.2%	16.4%	0.4%	44.8%	4.2%
University of California Irvine Medical Center	383	93,459	66.7%	21.7%	39.6%	8.1%	25.0%	5.7%
Other Hospitals	**7,863**	**1,893,526**	**59.2%**	**42.3%**	**25.6%**	**0.3%**	**26.2%**	**5.6%**
Cedars-Sinai Medical Center	851	270,924	87.0%	49.4%	8.9%	1.1%	35.8%	5.0%
Hoag Memorial Hospital Presbyterian	345	99,762	79.4%	46.6%	2.3%	0.8%	45.1%	5.2%
Torrance Memorial Medical Center	259	94,905	71.0%	46.4%	6.9%	0.0%	45.7%	1.1%
Pomona Valley Hospital Medical Center	436	91,010	57.0%	41.9%	35.3%	0.0%	19.4%	3.5%
Good Samaritan Hospital	374	86,847	63.4%	50.3%	12.4%	0.0%	35.2%	2.2%
Antelope Valley Hospital Medical Center	342	84,206	67.3%	45.2%	25.3%	0.0%	22.6%	6.9%
Motion Picture & Television Hospital	278	83,882	76.7%	3.8%	57.0%	0.0%	1.8%	37.4%
Children's Hospital of Los Angeles	314	82,977	72.2%	0.1%	69.0%	0.0%	30.4%	0.5%
Presbyterian Intercommunity Hospital	222	73,403	61.3%	51.8%	14.1%	0.0%	30.1%	4.0%
St. John's Hospital and Health Center	255	68,783	73.7%	59.6%	0.4%	0.0%	38.6%	1.4%
Valley Presbyterian Hospital	354	60,438	46.6%	36.6%	41.3%	0.0%	18.8%	3.4%
Specialty Hospital of Southern California	234	58,550	68.4%	92.7%	0.1%	0.0%	7.1%	0.1%
Santa Teresita Hospital	213	58,431	75.0%	6.9%	53.0%	0.0%	11.1%	29.0%
Granada Hills Community Hospital	153	23,257	41.5%	62.8%	21.1%	0.1%	12.5%	3.5%
East Los Angeles Doctor's Hospital	60	20,797	44.7%	25.5%	66.0%	0.3%	2.4%	5.7%
Temple Community Hospital	130	19,517	31.4%	52.9%	42.4%	0.0%	4.4%	0.3%
Hollywood Community Hosp of Hollywood	160	19,390	33.2%	49.0%	29.7%	0.0%	19.6%	1.7%
Coast Plaza Doctors Hospital	123	16,638	37.0%	48.2%	22.4%	0.0%	26.5%	2.9%
Anaheim General Hospital	143	16,132	30.8%	62.2%	23.5%	0.9%	12.1%	1.3%
Orange County Community Hospital - Buena Park	138	14,997	29.7%	78.2%	12.1%	0.0%	7.6%	2.1%
USC Kenneth Norris Jr. Cancer Hospital	44	14,622	86.8%	43.6%	0.0%	0.0%	54.1%	2.3%
Brea Community Hospital	62	14,432	26.5%	28.3%	53.9%	0.1%	16.8%	0.9%
Tri-City Regional Medical Center	127	9,960	21.4%	37.9%	24.9%	0.0%	28.3%	9.0%
San Clemente Hospital & Medical Center	71	8,745	60.1%	63.5%	3.6%	1.4%	23.6%	8.1%
Doctors Hospital of West Covina	26	8,594	46.0%	10.3%	86.0%	0.0%	3.2%	0.5%
Children's Hospital at Mission	48	6,817	38.8%	0.0%	20.7%	0.0%	77.6%	1.7%
TOTAL	**29,038**	**6,799,024**	**59.3%**	**41.2%**	**24.3%**	**1.8%**	**25.2%**	**7.5%**

Market Share for Los Angeles Hospital Systems

Tenet Health accounts for 16.4% of inpatient hospital days in the region, based on 2000 data. Catholic Healthcare West is second, although it has lost some of its hospitals to the new Sisters of Charity system. The eight Kaiser Foundation hospitals and the four Los Angeles County facilities account for a significant chunk of inpatient volume in the area. The Kaiser Foundation hospitals have almost 1,900 staffed beds.

Hospital System	Inpatient Days	Share
Tenet Health	1,114,154	16.4%
Catholic Healthcare West	812,201	11.9%
Kaiser Foundation	417,844	6.1%
County of Los Angeles	374,912	5.5%
Memorial Health Services	266,317	3.9%
Little Company of Mary	258,110	3.8%
St. Joseph	244,535	3.6%
Adventist	207,527	3.1%
Southern California Healthcare Systems	206,476	3.0%
Sisters of Providence	178,558	2.6%
Other	2,718,390	40.0%
TOTAL	6,799,024	100.0%

hospital in the area. It showed a modest loss on revenues of $745 million.

In *Exhibit 45,* hospitals are compared on their inpatient occupancy rates and payer mix in 2000. Hospitals in the area had, on average, 59.3 percent inpatient occupancy. The St, Joseph hospitals and the two Sisters of Providence hospital also posted average occupancy of 70% and higher. Among large independent hospitals, Cedars-Sinai, Hoag Memorial, and Torrance Memorial also had inpatient occupancy rates above 70%, with Cedars-Sinai the highest at 87%.

The Tenet Health hospitals in the area had an average occupancy rate of 57.6%, although the range is quite wide. A few of its hospitals have occupancy rates above 75%, while seven have rates below 50%. While Tenet handles managed care contracting from a central office, it doesn't have master contracts applying to all hospitals in its system. When PacifiCare announced its plan for tiering hospitals, most of the Tenet hospitals—but not all—were on the preferred list.

The St. Joseph system in Orange County recorded a profit of $47 million. It has gone through a significant redirection. Its old strategy was to pursue risk arrangements through capitation contracts with many HMOs and ownership of its own Knox-Keene license plan. It also pursued a strategy of vertical integration with the Bristol Park physicians group. In the past two years, it has reversed course, shutting down the Knox-Keene license health plan and spinning off the Bristol Park physicians. It has also become much more selective in its contracting with health plans, limiting its major managed care contracts to three or four preferred relationships. Other Knox-Keene limited license plans in southern California have also closed, with some failing spectacularly.

Just as northern California physicians have established prominent IPAs, the Los Angeles area has several important medical group practices and foundations. *Exhibit 46* provides an overview of the larger Los Angeles area physician organizations, with those in Orange County listed separately at the end. Kaiser Permanente has 823 primary care physicians in Los Angeles County and 230 more in Orange County. In Los Angeles, the other large medical groups include HealthCare Partners, La Vida, and Adventist Health. Major groups in Orange County include Bristol Park, Talbert, and the St. Joseph Heritage Foundation. Several of the largest groups operate a "wrap-around" IPA as well. Among the largest IPAs in the area are Monarch Healthcare, Physician Associates of the San Gabriel Valley and University Affiliates. The faculty medical group at UCLA includes 229 primary care doctors and 1,000 specialists.

Exhibit 46

Los Angeles Area Physician Organizations (Including Orange County)

Name of Physician Organization	Estimated Enrollment	Primary Care Organization	Specialists	Management Service Organization	Notes
Group Practice					
Southern California Permanente Medical Group	1,373,200	823	1,275	Southern California Permanente Medical Group	
Lakeside Medical Group, Inc.	81,000	180	860	Lakeside Healthcare, Inc.	Includes IPA type panel.
La Vida Medical Group & IPA	119,000	450	500	La Vida Medical Group IPA	Includes IPA type panel.
HealthCare Partners Medical Group	261,800	211	415	HealthCare Partners, Ltd	
Community Ambulatory Care Center Medical Group	25,000	140	274	SynerMed (Pacific Alliance Medical Group)	Includes IPA type panel.
Bright Medical Associates Medical Group, Inc.	68,000	118	200	Integrated Medical Management, Inc.	Includes IPA type panel.
Community Medical Group of the West Valley	58,000	90	127	Progressive Healthcare Systems, LLC	Includes IPA type panel.
Hispanic Physicians/Clinica Medica	6,050	56	104	Physicians Care Management Co	Includes IPA type panel.
Talbert Medical Group, Inc.	35,000	28	130	Talbert Medical Management	
IPA					
University Affiliates Medical Group IPA	107,000	561	1,870	University Affiliates Medical Group IPA	
Exceptional Care Medical Group	25,800	426	983	Cap Management Systems (CMS-Tenet)	

Global Care Medical Group IPA, Inc.	37,000	315	720	MedPoint Management, Inc.	
Physician Associates of San Gabriel Valley	134,500	325	571	Physician Associates of San Gabriel Valley	
Preferred IPA of California, Inc./Thrifty Healthcare	50,000	300	450	Thrifty Management Services	
Allied Physicians of California, a Professional Medical Corp	51,000	258	488	Network Medical Management, Inc. (Allied Physicians of California)	
Good Samaritan Medical Practice Association	29,500	154	357	Advanced Medical Management, Inc.	
Memorial Healthcare IPA Medical Group of Long Beach	33,900	107	362	Memorial Healthcare Management Services	
Pacific Independent Physicians Association	40,000	175	290	California Management Service Enterprises	
CareMore Medical Group, Inc.	49,200	141	256	CareMore Medical Management Company	
Latino Care Doctors' Network Medical Group	30,500	138	237	Latino Care Management	
THIPA Medical Group, Inc.	48,900	135	235	THIPA Management Consultants, Inc.	
Noble Community Medical Associates	25,300	117	234	Cap Management Systems (CMS-Tenet)	
Unified Physicians of the South Bay Medical Group	70,700	140	210	HealthCare Partners, Ltd	
Physician's Healthways Medical Corp	15,680	138	193	Central Health MSO, Inc.	Also, Hana Medical Group, Physicians Alliance Network, Southern California Children's Health Care Network
Lakewood Health Plan, a Medical Group	19,550	134	195	South Coast MSO	
Northridge Medical Group, Inc.	42,000	105	210	Meridian Health Care Management	
Accountable Healthcare IPA, Inc.	17,750	126	170	Accountable Healthcare IPA, Inc.	
Physicians of Greater Long Beach IPA, Inc.	26,005	93	187	Managed Care Innovations	
Pro Med Health Network of Pomona Valley	63,500	109	170	Pro Med Healthcare Administrators	
Greater Covina Medical Group, Inc.	41,200	86	177	Inter-Community Services	
Regal Medical Group, Inc./ San Gabriel Valley Medical Group	17,400	121	122	Heritage Provider Network	
Pacific Alliance Medical Group, Inc.	6,800	73	150	SynerMed (Pacific Alliance Medical Group)	
Glendale Memorial Medical Group, Inc.	29,000	116	105	Network Medical Management, Inc. (Allied Physicians of Calif.)	
Professional Care Medical Group, Inc.	43,500	109	100	Medical Pathways Management Corp.	North American Medical Management puchased Medical Pathways including management of Professional Care effective Feb., 2002.
Angeles IPA	25,100	96	110	SynerMed (Pacific Alliance Medical Group)	
St. Francis IPA Medical Group, Inc.	21,300	95	105	Medical Pathways Management Corp. (North American Medical Management)	
Prospect Medical Group	26,600	180	0	Prospect Medical Holdings, Inc.	
New Horizon Medical Group IPA	10,320	68	111	MV Medical Management	
Alliance of Private Practice Physicians Medical Group	57,000	133	41	HealthCare Partners, Ltd	
Omnicare Medical Group, Inc.	41,250	72	102	Advanced Medical Management, Inc.	
Capnet IPA	4,900	70	80	Meridian Holdings, Inc.	
Medical Foundation					
Adventist Health Southern California Foundation	103,600	154	297	Adventist Health Southern California Medical Foundation	Includes medical group and IPA. Medical
Presbyterian Health Physicians	24,500	131	36	HealthMed Services, Inc. (Presbyterian Intercommunity Hospital)	Includes medical group.
State/County Faculty/Staff					
UCLA Medical Group	79,780	229	1,000	UCLA Medical Center	Includes 100-physician Internal Medicine Faculty Medical Group, Includes old Santa Monica Medical Center Medical Group and United Physicians Association of Santa Monica; both merged into UCLA July 1, 2001.
County of Los Angeles Dept of Health Services	49,400	402	430	County of Los Angeles Dept of Health Services	

Inland Empire

During the 1990s, the population of Riverside County grew 32% to 1.5 million and San Bernardino County grew by 21% to 1.7 million. The Inland Empire is a popular destination for retirees and entrepreneurs alike. Some of the last new miles of interstate highway planned for the state are under construction there. The health care infrastructure has grown there as well. The major hospital systems, including Catholic Healthcare West, Kaiser Foundation, and Tenet Health, all have facilities there. The St. Joseph and HCA systems also have hospitals in the area. A look at *Exhibit 47*, though, shows that most of the hospitals remain outside of those systems.

Hospitals in the region had average profits of 4.7% of net patient revenues in 2000. Much of that was from the three Tenet hospitals, which had $63 million in profit for the year. Riverside County Medical Center also had strong results, partly though significant other revenues, such as government aid.

Inpatient occupancy rates are a little higher in these counties. *Exhibit 48* shows that the average inpatient occupancy rate was 65.5% in 2000. The

Exhibit 47

Revenues and Profitability for Inland Empire Hospitals

System/Hospitals	City	Net Patient Revenues	Operating Expenses	Net From Operations	Total Margin	% of Total Revenue
Catholic Healthcare West		**183,446,652**	**189,848,813**	**(4,200,391)**	**8,263,087**	**4.1%**
Community Hospital of San Bernardino	San Bernardino	80,590,656	78,957,558	2,770,808	7,083,240	8.2%
St. Bernardine Medical Center	San Bernardino	102,855,996	110,891,255	(6,971,199)	1,179,847	1.0%
Kaiser Foundation						
Tenet Health		**257,055,924**	**216,024,837**	**42,619,928**	**43,193,766**	**16.80%**
Desert Regional Medical Center	Palm Springs	166,213,057	146,402,722	20,984,402	21,512,769	12.6%
John F. Kennedy Memorial Hospital	Indio	57,648,742	48,022,266	9,917,092	9,963,374	17.0%
Rancho Springs Medical Center	Murrieta	33,194,125	21,599,849	11,718,434	11,717,623	35.2%
Valley Health		**128,520,877**	**141,560,161**	**(11,414,587)**	**(7,427,771)**	**-5.5%**
Hemet Valley Medical Center	Hemet	78,549,903	84,420,945	(4,504,083)	(2,044,774)	-2.5%
Menifee Valley Medical Center	Sun City	25,736,196	28,148,200	(2,154,266)	(1,434,270)	-5.4%
Moreno Valley Community Hospital	Moreno Valley	24,234,778	28,991,016	(4,756,238)	(3,948,727)	-15.8%
Loma Linda University Medical Center	**Loma Linda**	**464,988,443**	**479,251,471**	**8,957,541**	**11,055,205**	**2.3%**
Other Hospitals		**1,519,653,102**	**1,560,923,986**	**(9,923,702)**	**65,469,154**	**0.0%**
San Gorgonio Memorial Hospital	Banning	16,308,036	16,348,499	52,314	78,152	0.5%
Chino Valley Medical Center (HCA)	Chino	44,063,523	50,010,700	(5,311,468)	(5,475,679)	-12.2%
Barstow Community Hospital	Barstow	23,367,677	23,304,076	106,441	(1,076,936)	-4.6%
Palo Verde Hospital	Blythe	15,063,562	13,219,833	1,908,041	1,170,396	7.7%
St. Mary Regional Medical Center (St. Joseph Orange System)	Apple Valley	80,706,663	79,800,139	1,900,622	2,396,365	2.9%
Riverside County Regional Medical Center	Moreno Valley	192,041,627	176,962,992	19,495,915	38,689,865	17.8%
San Antonio Community Hospital	Upland	152,793,874	165,583,886	(11,322,786)	(1,397,266)	-0.9%
Riverside Community Hospital	Riverside	135,003,919	125,916,150	10,615,969	11,441,490	8.3%
Eisenhower Medical Center	Rancho Mirage	153,664,329	176,031,590	(7,379,900)	5,222,225	2.8%
Arrowhead Regional Medical Center	Colton	257,976,700	264,317,153	(5,010,370)	24,962,419	8.6%
Corona Regional Medical Center	Corona	67,672,634	65,862,457	4,174,629	3,466,449	4.9%
Redlands Community Hospital	Redlands	69,255,460	71,541,251	(1,574,748)	2,563,039	3.5%
Hi-Desert Medical Center	Joshua Tree	32,551,866	32,891,998	2,321	1,088,468	3.2%
Victor Valley Community Hospital	Victorville	35,765,324	39,181,506	(3,244,242)	(1,855,529)	-5.0%
Parkview Community Hospital	Riverside	62,079,691	66,169,373	(3,392,630)	(2,875,443)	-4.5%
U S Family Care Med Center	Montclair	19,580,406	19,377,680	308,482	153,435	0.8%
Inland Valley Regional Medical Center	Wildomar	40,795,745	40,601,959	378,142	232,564	0.6%
Desert Valley Hospital	Victorville	34,932,184	35,433,394	(390,791)	744,727	2.1%
Heritage Hospital	Rancho Cucamonga	18,611,613	30,686,419	(11,991,296)	(17,889,478)	-86.6%
Northern Inyo Hospital	Bishop	21,077,119	22,206,336	(970,830)	13,221	0.1%
Colorado River Medical Center	Needles	18,546,110	15,493,418	3,197,431	2,047,468	10.9%
Mountains Community Hospital	Lake Arrowhead	6,779,216	10,043,477	(3,068,277)	(243,935)	-2.5%
Mammoth Hospital	Mammoth Lakes	11,608,240	11,903,879	(240,742)	874,530	6.8%
The Heart Hospital Inc.	Rancho Mirage	9,407,584	8,035,821	1,834,071	1,138,607	11.5%
TOTAL		2,553,664,998	2,587,609,268	26,038,789	120,553,441	4.72%

three Tenet hospitals had average occupancy of 69% while the two Kaiser Foundation hospitals had occupancy rates of 68%. Overall, occupancy rates were down slightly from 1999, when the average for the group was 67.4%.

More than half of the inpatient days at the Tenet hospitals are for Medicare patients. In interviews with hospitals, most said that they are paid better for traditional Medicare patients than for their HMO contracts. The proportion is even higher at the Valley Health hospitals, whose flagship facility is in Hemet. Loma Linda University Medical Center, Riverside County Regional, and Community Hospital of St. Bernardino have a very high proportion of Medi-Cal patients.

For Medi-Cal managed care, Riverside and San Bernardino Counties organized Inland Empire Health Plan. Molina Medical Centers is the competing plan for those counties. The county HMO has received about 80% of the enrollment. It is also contracting with the state for Healthy Families.

Exhibit 48

Inpatient Occupancy Rates and Payer Mix for Inland Empire Hospitals

Hospital	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Medi-Cal Days	% County Indigent	% Other Third Parties	% Other Payers
Catholic Healthcare West	**543**	**124,968**	**61.1%**	**42.2%**	**40.8%**	**0.3%**	**13.5%**	**3.2%**
Community Hospital of San Bernardino	275	63,822	59.9%	30.6%	60.2%	0.0%	7.8%	1.4%
St. Bernardine Medical Center	268	61,146	62.3%	54.4%	20.5%	0.6%	19.5%	5.0%
Kaiser Foundation	**497**	**123,208**	**67.7%**	**40.1%**	**0.9%**	**0.0%**	**0.0%**	**59.0%**
Kaiser Foundation - Fontana	305	81,485	73.0%	40.0%	1.2%	0.0%	0.0%	58.8%
Kaiser Foundation - Riverside	192	41,723	59.4%	40.1%	0.4%	0.0%	0.0%	59.4%
Tenet Health	**1,460**	**372,434**	**69.0%**	**54.2%**	**20.3%**	**0.6%**	**17.1%**	**7.7%**
Desert Regional Medical Center	220	76,749	95.3%	33.0%	23.4%	1.2%	34.7%	7.7%
John F. Kennedy Memorial Hospital	130	28,419	59.7%	33.5%	32.4%	1.7%	31.5%	0.9%
Rancho Springs Medical Center	44	9,862	45.5%	56.2%	13.2%	0.6%	29.1%	0.9%
Valley Health	**533**	**128,702**	**66.0%**	**62.7%**	**18.4%**	**0.3%**	**9.8%**	**8.8%**
Hemet Valley Medical Center	377	91,809	66.5%	60.0%	19.7%	0.3%	8.4%	11.7%
Menifee Valley Medical Center	84	20,310	66.1%	84.7%	3.5%	0.5%	10.4%	0.8%
Moreno Valley Community Hospital	72	16,583	62.9%	51.3%	29.3%	0.2%	17.0%	2.3%
Loma Linda University Medical Center	**653**	**176,831**	**74.0%**	**26.0%**	**36.1%**	**0.5%**	**36.7%**	**0.7%**
Other Hospitals	**3,041**	**785,784**	**62.8%**	**33.2%**	**0.0%**	**0.0%**	**0.0%**	**99.4%**
San Gorgonio Memorial Hospital	42	14,928	60.0%	45.7%	15.1%	0.5%	37.2%	1.5%
Chino Valley Medical Center	122	24,173	52.4%	29.4%	15.3%	0.0%	49.9%	5.5%
Barstow Community Hospital	31	10,087	49.2%	47.4%	18.7%	0.0%	29.5%	4.4%
Palo Verde Hospital	35	6,337	49.5%	43.3%	20.8%	0.6%	26.4%	8.8%
St. Mary Regional Medical Center	183	48,340	72.2%	45.6%	18.1%	0.0%	33.7%	2.6%
Riverside County Regional Medical Center	347	79,329	62.5%	8.4%	46.0%	19.1%	21.1%	5.5%
San Antonio Community Hospital	298	72,223	66.2%	43.1%	17.1%	0.0%	37.8%	2.0%
Riverside Community Hospital	276	72,138	59.9%	47.6%	11.0%	1.2%	37.8%	2.5%
Eisenhower Medical Center	236	61,816	64.7%	69.8%	5.7%	0.1%	22.0%	2.3%
Arrowhead Regional Medical Center	327	91,943	67.3%	10.5%	57.9%	21.8%	9.9%	0.0%
Corona Regional Medical Center	216	44,698	56.5%	35.9%	23.6%	30.7%	8.1%	1.7%
Redlands Community Hospital	194	52,650	74.2%	37.7%	9.9%	0.0%	49.3%	3.0%
Hi-Desert Medical Center	175	47,082	73.5%	21.5%	72.7%	0.0%	3.1%	2.7%
Victor Valley Community Hospital	70	26,173	62.2%	31.9%	30.4%	2.1%	26.5%	9.1%
Parkview Community Hospital	98	35,021	49.6%	20.1%	27.8%	0.2%	42.8%	9.1%
U S Family Care Medical Center - Montclair	102	13,071	42.2%	18.7%	23.4%	0.0%	54.8%	3.1%
Inland Valley Regional Medical Center	63	22,573	77.1%	36.5%	7.9%	0.6%	50.0%	4.9%
Desert Valley Hospital	55	20,339	67.0%	15.5%	6.3%	0.0%	72.3%	5.9%
Heritage Hospital	55	18,709	93.2%	91.7%	0.1%	0.0%	4.1%	4.1%
Northern Inyo Hospital	32	3,698	31.6%	54.0%	14.5%	4.1%	23.6%	3.9%
Colorado River Medical Center	30	9,040	46.6%	68.5%	6.1%	0.0%	19.4%	6.1%
Mountains Community Hospital	27	8,471	66.1%	7.3%	72.4%	0.0%	9.3%	11.0%
Mammoth Hospital	15	1,139	20.7%	14.2%	12.1%	3.7%	48.4%	21.6%
The Heart Hospital, Inc.	12	1,806	41.1%	83.1%	0.0%	0.0%	14.7%	2.2%
TOTAL	6,727	1,711,927	65.5%	41.0%	25.0%	3.2%	22.3%	8.5%

Medicare managed care remains highly competitive in the area. There are still seven or eight health plans offering Medicare+Choice plans in those counties. More than 40% of seniors are enrolled in an HMO. PacifiCare is the largest senior plan in those counties, followed by Kaiser Permanente. Another option for seniors is SCAN Health Plan, a Long Beach HMO that offers a Social HMO plan.

As shown in *Exhibit 49,* the Permanente clinics in these three counties (including Imperial) have 561 primary care doctors. Among the other large medical groups in the area are Primecare Medical Group Network, which has a Knox-Keene limited license, Beaver Medical Group and Inland Global Care Medical Group. The largest IPAs in the area include Riverside Physician Network, Hamet Community Medical Group, and Vantage Medical Group. The KPC Global medical group had a brief run as one of the largest groups in the area, before it crashed and left enormous disruption in its wake.

Exhibit 49

Inland Empire Area Physician Organizations

Name of Physician Organization	Estimated Enrollment	Primary Care Physicians	Specialists	Managemant Service Organsization	Notes
Group Practice					
Molina Healthcare	31,300	26	Unknown	Molina Healthcare	
Southern California Permanente Medical Group	584,100	561	649	Southern California Permanente Medical Group	
Primecare Medical Group Network	220,000	297	642	North American Medical Management, Inc.	Includes IPA type panel.
Inland Global Care Medical Group	60,800	96	181	Global Care Healthcare Management Corp	Includes IPA type panel.
Inland Medical Centers	10,000	17	246	IMC Management, Inc.	
San Bernardino Medical Group, Inc.	11,700	18	173	San Bernardino Medical Group, Inc.	
Beaver Medical Group	87,000	88	97	Epic Management LP (Beaver Medical Group)	Includes IPA type panel.
United Family Care Medical Group	26,500	15	169	United Family Care Medical Group	
High Desert Primary Care Medical Group	13,000	10	169	High Desert Primary Care Medical Group	
Inland Faculty Medical Group, Inc.	11,000	32	140	Arrowhead Medical Management Services, Inc. (Inland Faculty)	
Family Practice Medical Group of San Bernardino	9,800	50	105	Family Practice Medical Group of San Bernardino	Includes IPA type panel.
Desert Medical Group, Inc.	34,600	25	88	Desert Medical Group, Inc.	Includes IPA type panel.
Riverside Medical Clinic	79,000	58	50	Riverside Medical Clinic	
IPA					
Vantage Medical Group, Inc.	49,300	140	490	Primary Provider Management Company	
Empire Physicians Medical Group, Inc.	20,300	47	190	North American Medical Management, Inc.	
Hemet Community Medical Group, Inc.	63,000	64	172	Hemet Community Medical Group, Inc.	
Riverside Physician Network Medical Group	66,200	67	161	Global Care Healthcare Management Corp	
Inland Health Organization IPA	29,500	33	167	Inland Health Organization, Inc.	
Riverside Family Health Medical Group	2,000	17	170	MedPoint Management, Inc.	
Family/Seniors Medical Group, Inc.	6,600	8	175	Meridian Health Care Management	
Alpha Care Medical Group	10,000	28	150	Primary Provider Management Company	
Oasis IPA Medical Group, Inc.	23,500	106	56	Heritage Provider Network	
Hi-Desert Physician Association Medical Group	1,700	11	132	Global Care Healthcare Management Corp	
Physician Health Network, Inc.	3,600	42	97	Epic Management LP (Beaver Medical Group)	
Pro Med Health Network of Pomona Valley	12,500	79	50	Pro Med Healthcare Administrators	
St. Mary/Choice Medical Group/ Apple Valley	23,900	44	84	St. Mary Choice Medical Group, Inc.	Old Corwin IPA and merger of St. Mary Medical Group and Choice Medical Group IPAs. Effective Sept 1, 2001 became self-administered.
Mission Medical Group, Inc.	21,100	16	109	Primary Provider Management Company	
High Desert IPA Medical Group	3,900	25	91	Global Care Healthcare Management Corp	
University Affiliates Medical Group IPA	11,000	49	56	University Affiliates Medical Group IPA	
Medical Foundation					
Loma Linda University Healthcare	38,600	50	401	Adventist Health Managed Care	Includes medical group.

San Diego

Last but certainly not least, San Diego is unique among the major sub-markets in the state. It is still largely isolated from the rest of the state, and its major provider systems are distinctly San Diego organizations. That creates a sense of community responsibility for addressing issues like offering insurance options to small businesses. It also creates a sense that problems can be addressed at the community level.

Sharp is the largest inpatient system in the area, with six hospitals (*Exhibit 50*) with about 32% of inpatient hospital days. Second is the Scripps system, which has five hospitals after closing its East County facility. The largest Scripps hospitals are in La Jolla and Mercy, which is downtown close to the University of California at San Diego facility. The UC San Diego facility is the former county hospital. UC San Diego also operates an HMO with about 15,000 enrollees, mostly in Medi-Cal. Kaiser Foundation operates a large hospital in San Diego and also uses the Palomar Pomerado hospitals in the northern part of San Diego County. *Exhibit 51* is a map showing San Diego hospitals and their systems affiliations.

Exhibit 52 shows that the Scripps hospitals posted a small loss in 2000, 2.6% of net patient revenues. The Sharp hospitals posted a modest profit on operations and an overall profit of about 3.3%.

The Scripps hospitals posted a modest profit in 1999. The Sharp hospitals had higher revenues in 2000 and also posted higher profits. Tenet operates one hospital in the area, the Alvarado Hospital Medical Center. It has earned $18 to $19 million in 1999 and 2000.

The Palomar Pomerado hospitals in the northern part of the county lost money in 2000. The two hospitals lost $12.1 million in 2000. A larger loss on operations was reduced by other revenues. In 1999 the two hospitals also lost money on their operations but broke even in their overall results. Kaiser Permanente has develped a close relationship with those hospitals and has built up that relationship rather than building a new hospital.

Among the independent hospitals, Children's Hospital of San Diego reported a loss of $6.1 million in 2000. It lost $25 million on operations, but had other revenues from philanthropy and other sources that helped reduce the overall loss.

The different provider groups that share the Scripps name have generally moved away from capitation. The hospitals have already completed that change, and the physicians are in the process of moving away as contracts are renewed for 2002 and 2003. While the health plans might still prefer capitation, they apparently are going along with the Scripps doctors. It is a little ironic that these providers are moving away from risk arrangements at a time when premium revenues are increasing. When asked if they thought that physicians would want to return to capitation, interviewees said that they were put off by a number of factors: the unpredictability of costs; the lack of an effective risk adjustment tool and the regulatory climate, which makes it difficult to use some of the medical management and cost containment tools relied by health plans and capitated provider groups.

It is a little ironic that these providers are moving away from risk arrangements at a time when premium revenues are increasing. When asked if they thought that physicians would want to return to capitation, interviewees said that they were put off by a number of factors.

Exhibit 50

San Diego Hospital Market Share

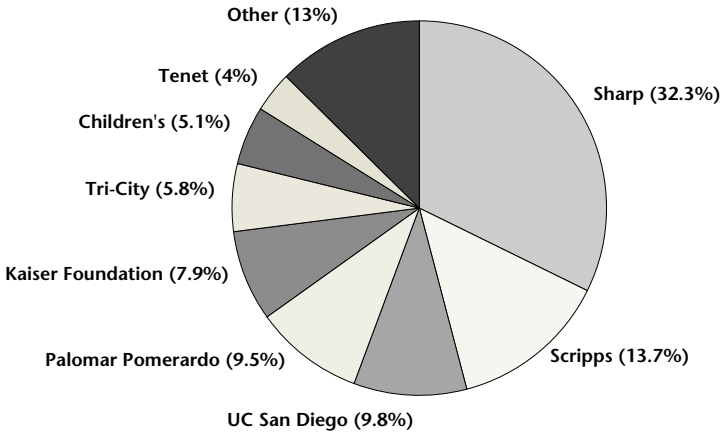
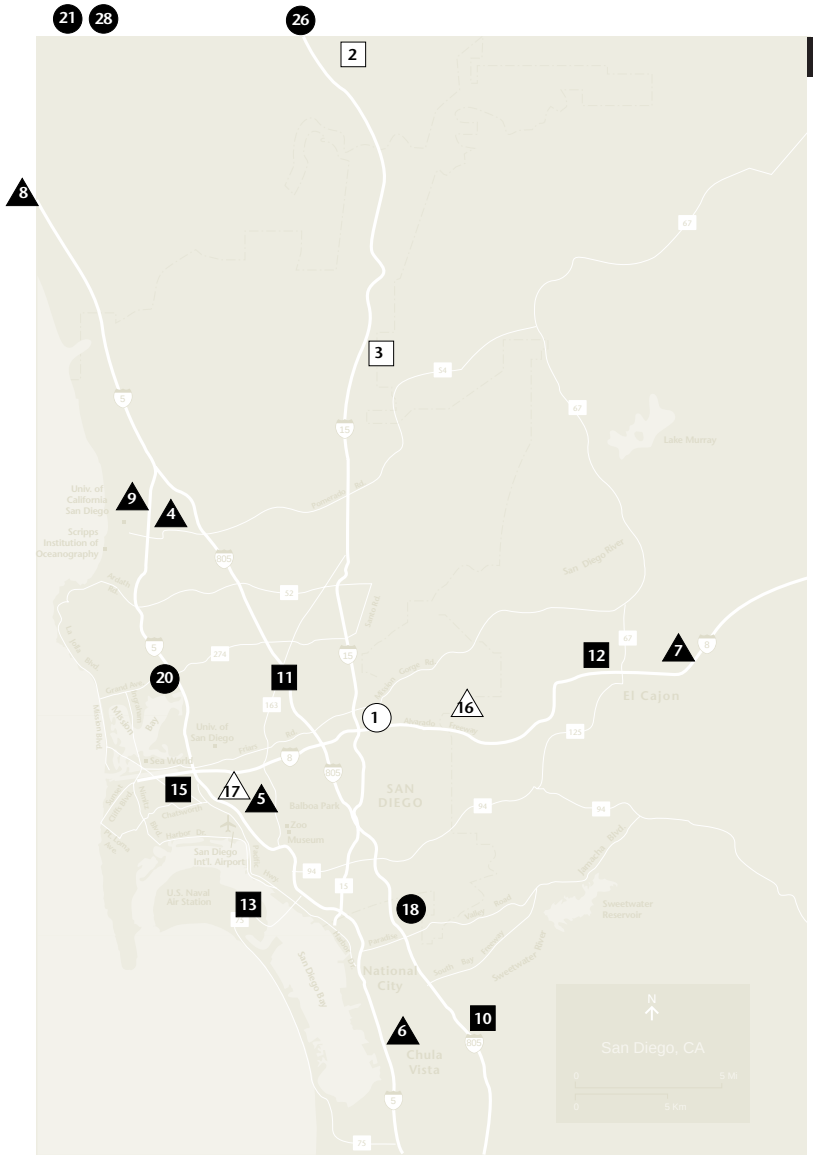


Exhibit 51

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

Exhibit 52

Revenues and Profitability for San Diego Hospitals

Systems/Hospitals	City	Net Patient Revenues	Operating Expenses	Net From Operations	Total Margin	%of % of Revenue
Kaiser Foundation San Diego	**San Diego**					
Palomar Pomerado		**180,284,055**	**205,676,730**	**(19,873,782)**	**(12,097,936)**	**-6.2%**
Palomar Medical Center	Escondido	144,553,131	166,438,072	(17,074,047)	(10,036,378)	-6.4%
Pioneers Memorial Hospital	Brawley	35,730,924	39,238,658	(2,799,735)	(2,061,558)	-5.5%
Scripps		**560,882,339**	**605,092,447**	**(18,610,258)**	**(15,377,327)**	**-2.6%**
Scripps Memorial Hospital - La Jolla	La Jolla	169,485,598	182,135,409	(3,429,930)	(1,725,282)	-1.0%
Scripps Mercy Hospital	San Diego	169,163,181	181,452,234	(6,814,486)	(5,442,496)	-3.1%
Scripps Memorial Hospital - Chula Vista	Chula Vista	53,721,229	66,926,320	(11,167,394)	(11,167,394)	-20.0%
Scripps Memorial Hospital - Encinitas	Encinitas	55,691,704	59,647,340	(2,775,674)	(2,619,381)	-4.6%
Scripps Green Hospital	La Jolla	112,820,627	114,931,144	5,577,226	5,577,226	4.6%
Sharp		**592,234,101**	**587,175,504**	**17,900,917**	**23,854,055**	**3.9%**
Sharp Chula Vista Medical Center	Chula Vista	95,697,504	90,820,811	6,194,901	6,883,927	7.0%
Sharp Memorial Hospital	San Diego	224,021,317	227,114,816	642,706	1,545,438	0.7%
Grossmont Hospital	La Mesa	182,907,166	176,336,535	13,814,103	17,788,780	9.1%
Sharp Coronado	Coronado	30,815,384	32,373,674	(1,551,583)	(1,223,234)	-3.7%
Sharp Mary Birch Hospital For Women	San Diego	50,226,396	47,985,075	2,779,049	2,779,049	5.5%
Sharp Cabrillo Hospital	San Diego	8,566,334	12,544,593	(3,978,259)	(3,919,905)	-45.4%
Tenet Health		**103,465,804**	**85,548,538**	**18,758,675**	**17,701,568**	**16.5%**
Alvarado Hospital Medical Center		103,465,804	85,548,538	18,758,675	17,701,568	16.5%
University of California-San Diego Medical Center	**San Diego**	**428,208,078**	**366,794,802**	**90,291,898**	**97,488,256**	**21.0%**
Other		**487,721,001**	**581,545,081**	**(65,352,960)**	**(32,559,076)**	**-5.9%**
Paradise Valley Hospital	National City	69,933,188	80,984,036	(9,159,266)	(6,385,375)	-8.6%
Pioneers Memorial Hospital	Brawley	35,730,924	39,238,658	(2,799,735)	(2,061,558)	-5.5%
Mission Bay Hospital	San Diego	18,007,389	27,409,089	(9,226,833)	(9,115,199)	-49.8%
Tri-City Medical Center	Oceanside	130,363,594	147,747,093	(14,564,124)	(4,512,073)	-3.1%
Children's Hospital - San Diego	San Diego	150,519,517	197,594,438	(24,959,893)	(6,095,896)	-3.2%
El Centro Regional Medical Center	El Centro	45,450,808	45,559,962	382,508	610,967	1.3%
Fallbrook Hospital District	Fallbrook	23,974,808	23,691,345	466,803	490,888	2.0%
Villa View Community Hospital	San Diego	13,740,773	19,320,460	(5,492,420)	(5,490,830)	-39.7%
TOTAL		2,257,097,874	2,341,012,291	16,919,589	72,125,613	3.0%

As shown in *Exhibit 53,* San Diego area hospitals had average inpatient occupancy rates of 63% in 2000. The one Kaiser Foundation hospital in the area had an occupancy rate of 89%, up from 76% in 1999. The two major systems, Scripps and Sharp, had occupancy rates of 61.4% and 67.8%, respectively.

The Sharp Health Plan has grown in the past three year and now has reached 100,000 enrollees. It is one of six HMOs contracting for Medi-Cal in the county, and almost half of its enrollees are in Medi-Cal. It still capitates its major hospitals and physician groups to a large extent.

Kaiser Permanente has about 30% of the HMO market in San Diego, which is estimated to be about 1.5 million members. PacifiCare is the second largest, as shown in *Exhibit 54.* There are about 170,000 seniors in Medicare HMO plans. About 155,000 Medi-Cal enrollees are in HMOs. Community Health Group and Sharp Health Plan are the largest Medi-Cal HMOs in San Diego. Sharp Health Plan is also involved in an initiative to offer subsidized health insurance to small businesses that have not offered coverage to their employees.

Exhibit 55 provides an overview of the major physician organizations in San Diego. Many of the largest groups are closely tied with hospital systems. After the Permanente Medical Group, two of the largest groups are affiliated with Sharp, as well as the largest IPA. Scripps has a Foundation, an IPA, and a second foundation of physicians at Mercy Hospital.

Exhibit 53

Inpatient Occupancy Rates and Payer Mix for San Diego Hospitals

Hospital	Staffed Beds	Inpatient Days	Occupancy	% Medicare Days	% Med-Cal Days	% County Indigent	% Other Third Parties	% Other Payers
Kaiser Foundation San Diego	**337**	**99,608**	**80.8%**	**40.4%**	**0.5%**	**0.0%**	**0.0%**	**59.1%**
Palomar Pomerardo	**408**	**119,894**	**62.6%**	**43.4%**	**24.8%**	**1.4%**	**21.7%**	**8.7%**
Palomar Medical Center	309	102,301	65.9%	44.5%	24.1%	0.6%	21.2%	9.6%
Pioneers Memorial Hospital	99	17,593	48.6%	36.7%	28.9%	6.2%	24.8%	3.4%
Scripps	**894**	**282,323**	**61.4%**	**49.7%**	**11.5%**	**2.6%**	**28.7%**	**7.4%**
Scripps Memorial Hospital	356	84,623	64.9%	44.4%	4.3%	1.5%	40.3%	9.5%
Scripps Mercy Hospital	241	88,425	54.0%	43.8%	22.2%	4.7%	22.8%	6.4%
Scripps Memorial Hospital - Chula Vista	107	39,111	70.3%	56.4%	17.2%	2.8%	10.8%	12.7%
Scripps Memorial Hospital - Encinitas	86	31,641	65.0%	64.5%	6.6%	2.0%	21.0%	5.8%
Scripps Green Hospital	104	38,523	62.7%	56.2%	1.2%	0.3%	41.5%	0.9%
Sharp	**1,502**	**409,043**	**67.8%**	**41.7%**	**26.8%**	**1.7%**	**13.6%**	**18.3%**
Sharp Chula Vista Medical Center	288	81,708	73.0%	40.9%	38.3%	2.0%	11.7%	7.1%
Sharp Memorial Hospital	419	123,020	70.8%	47.5%	14.2%	2.0%	10.5%	25.8%
Grossmont Hospital	412	94,006	62.3%	58.6%	17.1%	3.1%	19.5%	1.7%
Sharp Coronado	175	52,939	70.9%	16.8%	57.5%	0.2%	4.7%	20.7%
Sharp Mary Birch Hospital for Women	132	37,764	62.2%	0.8%	30.3%	0.1%	29.3%	39.5%
Sharp Cabrillo Hospital	76	19,606	62.3%	73.5%	15.8%	0.0%	6.9%	3.8%
Tenet	**231**	**44,615**	**52.8%**	**39.7%**	**12.4%**	**0.2%**	**44.0%**	**3.6%**
Alvarado Hospital Medical Center	231	44,615	52.8%	39.7%	12.4%	0.2%	44.0%	3.6%
University of California San Diego Medical Center	**485**	**123,651**	**67.8%**	**26.6%**	**31.0%**	**8.6%**	**27.2%**	**6.7%**
Other	**1,396**	**297,877**	**55.2%**	**36.3%**	**36.5%**	**1.3%**	**19.5%**	**6.5%**
Paradise Valley Hospital	237	50,168	57.8%	49.4%	36.9%	3.3%	6.8%	3.6%
Pioneers Memorial Hospital	99	17,593	48.6%	36.7%	28.9%	6.2%	24.8%	3.4%
Mission Bay Hospital	41	13,185	30.7%	59.7%	1.4%	1.1%	33.4%	4.4%
Tri-City Medical Center	397	74,117	51.0%	57.8%	12.0%	0.0%	21.9%	8.3%
Children's Hospital - San Diego	270	64,152	64.9%	0.1%	62.5%	0.0%	36.1%	1.3%
El Centro Regional Medical Center	106	24,360	62.2%	44.6%	23.7%	3.0%	19.0%	9.6%
Fallbrook Hospital District	146	34,613	64.8%	20.8%	60.8%	0.0%	4.1%	14.2%
Villa View Community Hospital	100	19,689	53.8%	41.0%	46.0%	0.5%	1.9%	10.7%
TOTAL	5,253	1,377,011	63.1%	40.9%	24.0%	2.3%	19.1%	13.8%

Exhibit 54

Estimated HMO Market Share for San Diego

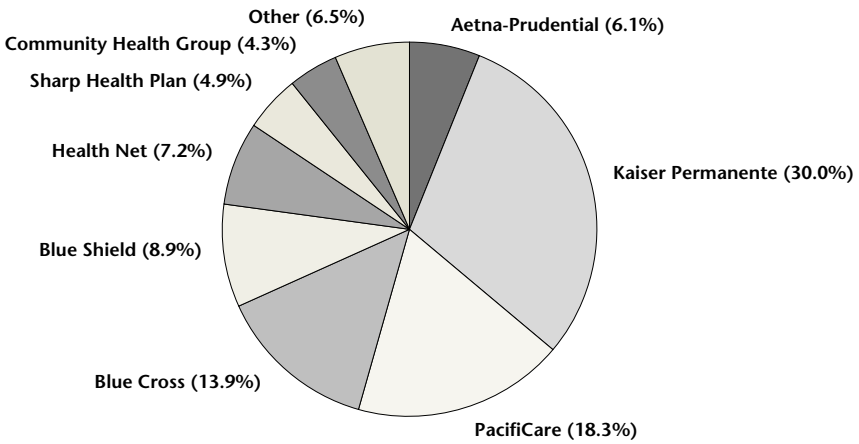


Exhibit 55

San Diego Physician Organizations

counties: San Diego

Name of Physician Organization	Estimated Enrollment	Primary Care Physicians	Specialists	Managemant Service Organsization	Notes
Group Practice					
Southern California Permanente Medical Group	489,600	411	523	Southern California Permanente Medical Group	
Sharp Mission Park Medical Group, Inc.	55,700	65	300	Sharp Healthcare/Sharp Mission Park Medical Corp	Includes IPA type panel.
Sharp Rees-Stealy Medical Group	142,900	98	213	Sharp Rees-Stealy Corp	
Centre for Health Care Medical Associates, Inc.	32,900	23	117	Centre for Health Care Medical Associates, Inc.	Includes IPA type panel.
Graybill Medical Group, Inc.	8,700	34	70	Graybill Medical Group, Inc.	
Penn Elm Medical Group	26,300			Scripps Clinic Health Plan Services	
IPA					
Community Clinics Health Network	32,850	92	1,200		IPA of group practices/clinics.
Sharp Community Medical Group, Inc.	147,100	211	750	MSO of Sharp Community Medical Group	
San Diego Physicians Medical Group, Inc.	61,000	117	434	Southern California Physicians Managed Care Services, Inc. (ScrippsHealth)	
San Diego IPA	2,200	66	300	San Diego IPA	
Mercy Physicians Medical Group, Inc.	30,800	85	252	North American Medical Management, Inc.	
Scripps Physicians, a Medical Corp	30,050	90	220	Best MSO	
Med Premises Medical Group	9,700	67	197	MedPoint Management, Inc.	
Children's Physicians Medical Group	2,900	30	165	Children's Health Network	
Primary Care Associates Medical Group, Inc.	54,300	57	98	Primary Care Associates Medical Group, Inc.	
Greater Tri-Cities IPA Medical Group, Inc.	5,900	24	89	Tri-City IPA Medical Group, Inc.	
Medical Foundation					
Scripps Clinic	137,500	99	235	Scripps Clinic Health Plan Services	Includes medical group.
La Maestra Family Clinic	2,050	7	200	La Mastra Family Clinic	
Scripps Medical Foundation	17,600	20	150	Scripps Clinic Health Plan Services	Includes medical group.
State/County Faculty/Staff					
University of California San Diego Healthcare Network	59,920	94	448	UCSD Healthcare Network	

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.

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