



CALIFORNIA
HEALTHCARE
FOUNDATION

SNAPSHOT

Financial Health of California Hospitals

2007

Introduction

The health of California's hospitals is better than it was in the 1990s, although there is a wide gap between those that are doing well and those that are not. Over one-third of California general acute hospitals have very strong operating margins and good bond ratings. But the financial health of almost half of the facilities qualifies them for junk bond status at best. This affects their ability to borrow funds to modernize, which can impact the quality of care they provide.

This report focuses on the financial health of California's 355 general acute care hospitals, including data on how they are owned, how they are used, who pays for hospital care, and their relative financial strength.

Some key findings include:

- Over 60 percent of California hospitals are part of multi-hospital systems.
- The majority of California hospitals are nonprofit, representing 67 percent of all hospital beds in the state.
- California's hospital resources are used more efficiently, with fewer emergency department visits, hospital admissions, and days of hospital care per 1,000 population than the U.S. average.
- Large numbers of Medicare and Medi-Cal patients served generally have a negative impact on a hospital's financial performance because these payments don't cover the cost of providing care. Private insurance generally pays more than the cost of care to offset the loss.

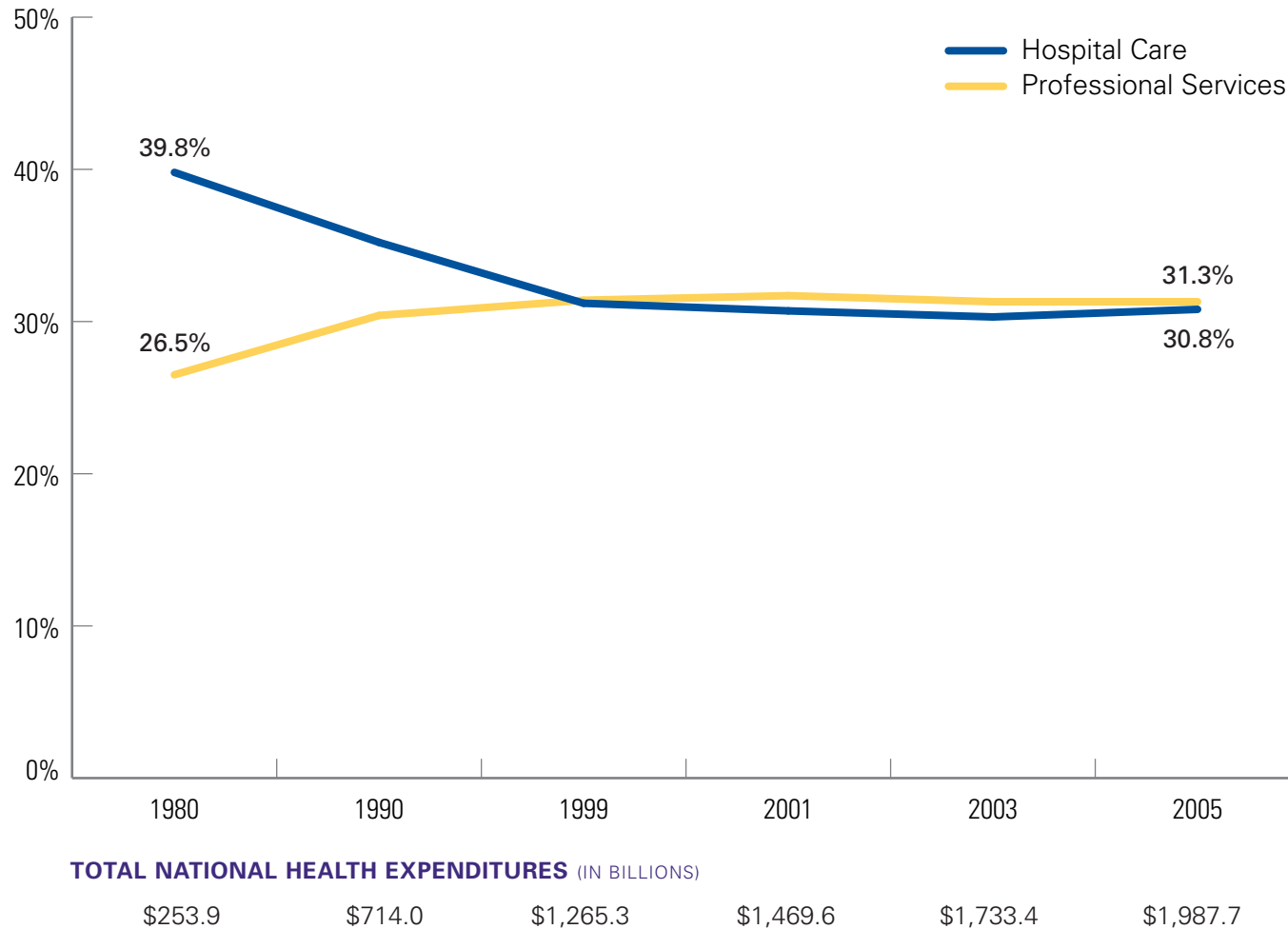
This snapshot is based on the 2007 *Financial Health of California Hospitals*, by PricewaterhouseCoopers, which is available for download at www.chcf.org/topics/hospitals/index.cfm?itemID=133322.

California Hospitals

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Hospital Care and Professional Services as Percent of All Health Expenditures, United States, Selected Years, 1980–2005



Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

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Although spending on hospital care previously represented the largest area of health care spending, it has declined as a percentage over time. Professional services, which includes salaries and benefits, now represents a larger portion of the pie.

General Acute Care Hospitals, by Type of Ownership, California, 2001–2005

	2001	2002	2003	2004	2005
NUMBER OF HOSPITALS					
City/County	21	21	21	19	19
District	44	45	46	45	46
For-Profit	94	96	93	86	84
Nonprofit	224	219	218	213	206
Total	383	381	378	363	355
NUMBER OF AVAILABLE BEDS					
City/County	5,822	5,854	5,809	6,119	5,937
District	5,088	5,157	5,403	5,392	5,642
For-Profit	14,115	14,615	14,545	13,492	13,316
Nonprofit	50,477	50,960	50,831	50,800	50,622
Total	75,502	76,586	76,588	75,803	75,517
AVERAGE BED SIZE					
City/County	277	279	277	322	312
District	116	115	117	120	123
For-Profit	150	152	156	157	159
Nonprofit	225	233	233	238	246

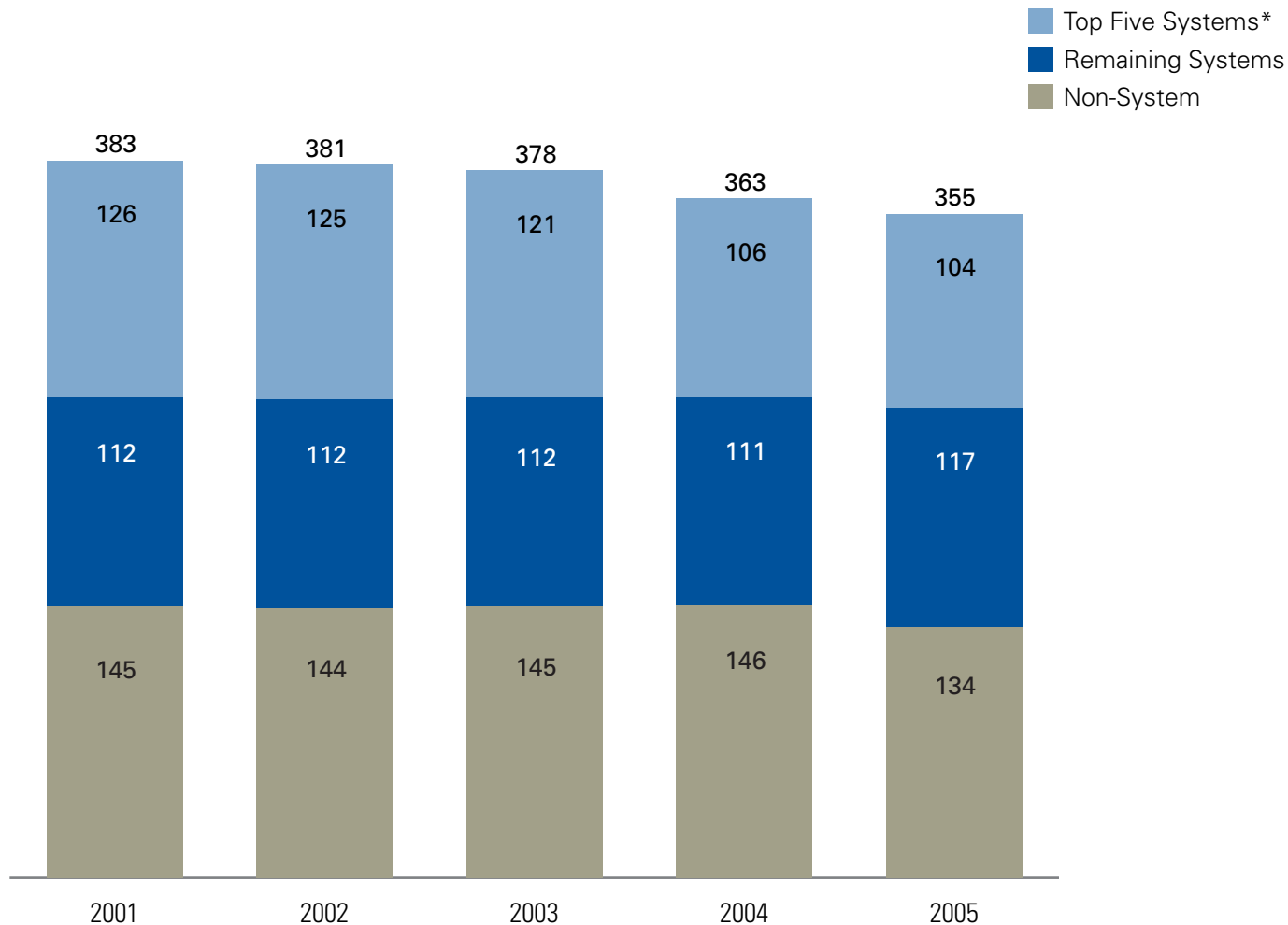
Note: Includes Kaiser Foundation Hospitals.

Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

California Hospitals

The majority of California hospitals are nonprofit entities, representing 67 percent of all hospital beds in the state.

Hospitals, by System Designation, California, 2001–2005



Note: Includes Kaiser Foundation Hospitals.

*The top five hospital systems are Catholic Healthcare West, Kaiser Permanente, Tenet Healthcare Corporation, Sutter Healthcare Corporation, and the University of California.

Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

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The number of hospitals in the top five systems has declined over time. The 28 hospitals that closed from 2001 to 2005 have been equally distributed between systems and non-systems.

Ratio of Hospital Beds to Population, California, New York, and U.S., 1999–2005

	2000	2001	2002	2003	2004	2005
CALIFORNIA						
Community Hospitals	389	384	383	370	361	355
Population (in 1,000s)	34,003	34,457	34,988	34,527	35,842	36,132
Staffed Beds (AHA)	72,707	73,291	74,343	74,330	71,910	70,192
Beds per 1,000 Population	2.1	2.1	2.1	2.2	2	1.9
NEW YORK						
Community Hospitals	215	212	211	207	206	203
Population (in 1,000s)	18,976	19,086	19,151	19,212	19,227	19,255
Staffed Beds (AHA)	66,434	67,296	65,570	64,705	64,205	63,068
Beds per 1,000 Population	3.5	3.5	3.4	3.4	3.3	3.3
UNITED STATES						
Community Hospitals	4,915	4,908	4,927	4,895	4,919	4,936
Population (in 1,000s)	281,422	285,102	287,941	290,789	293,655	295,747
Staffed Beds	823,560	825,966	820,653	813,307	808,127	802,311
Beds per 1,000 Population	2.9	2.9	2.9	2.8	2.8	2.7

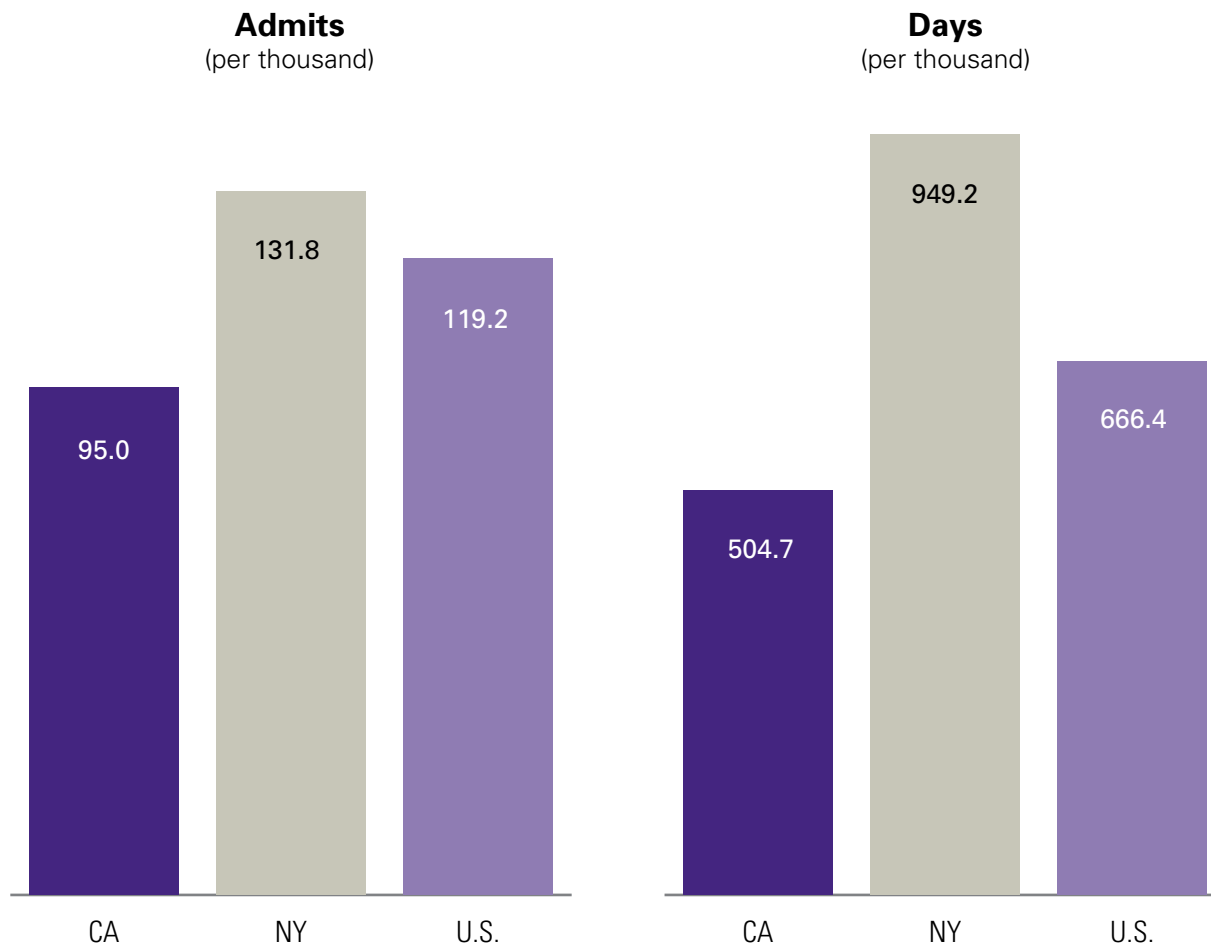
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California has fewer beds per 1,000 people than the nation, and significantly less than New York. Fewer beds are needed in California because resources are more efficiently used and its younger, healthier population requires less hospital care.

Note: Community hospitals include non-federal, short-term general, and other special hospitals. Staffed beds are those which are both licensed and have the requisite staff available to care for patients.

Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

Inpatient Utilization, California, New York, and United States, 2005



Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

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California hospitals admit fewer patients per thousand and use fewer hospital days per thousand than comparable states or the nation.

Occupancy Rates, by Hospital Size, California, 2001–2005

		HOSPITAL SIZE (BY NUMBER OF AVAILABLE BEDS)				
		< 150	151 – 250	251 – 349	350+	TOTAL
2001	Total Inpatient Days	2,730,620	4,446,754	4,056,811	6,147,195	17,381,380
	Total Available Beds	13,817	19,739	16,796	25,150	75,502
	Occupancy Rate	54%	62%	66%	67%	63%
2002	Total Inpatient Days	2,780,218	4,362,786	3,813,475	6,546,078	17,502,557
	Total Available Beds	13,715	19,222	16,822	26,827	76,586
	Occupancy Rate	56%	62%	62%	67%	63%
2003	Total Inpatient Days	2,680,841	4,626,977	3,781,102	7,041,092	18,130,012
	Total Available Beds	13,059	19,585	15,653	28,291	76,588
	Occupancy Rate	56%	65%	66%	68%	65%
2004	Total Inpatient Days	2,405,355	4,024,550	4,214,328	7,202,564	17,846,797
	Total Available Beds	11,716	17,506	17,504	29,077	75,803
	Occupancy Rate	56%	63%	66%	68%	65%
2005	Total Inpatient Days	2,299,916	3,885,354	3,983,795	7,655,599	17,824,664
	Total Available Beds	11,427	16,970	16,639	30,481	75,517
	Occupancy Rate	55%	63%	66%	69%	65%

Note: Includes Kaiser Foundation Hospitals.

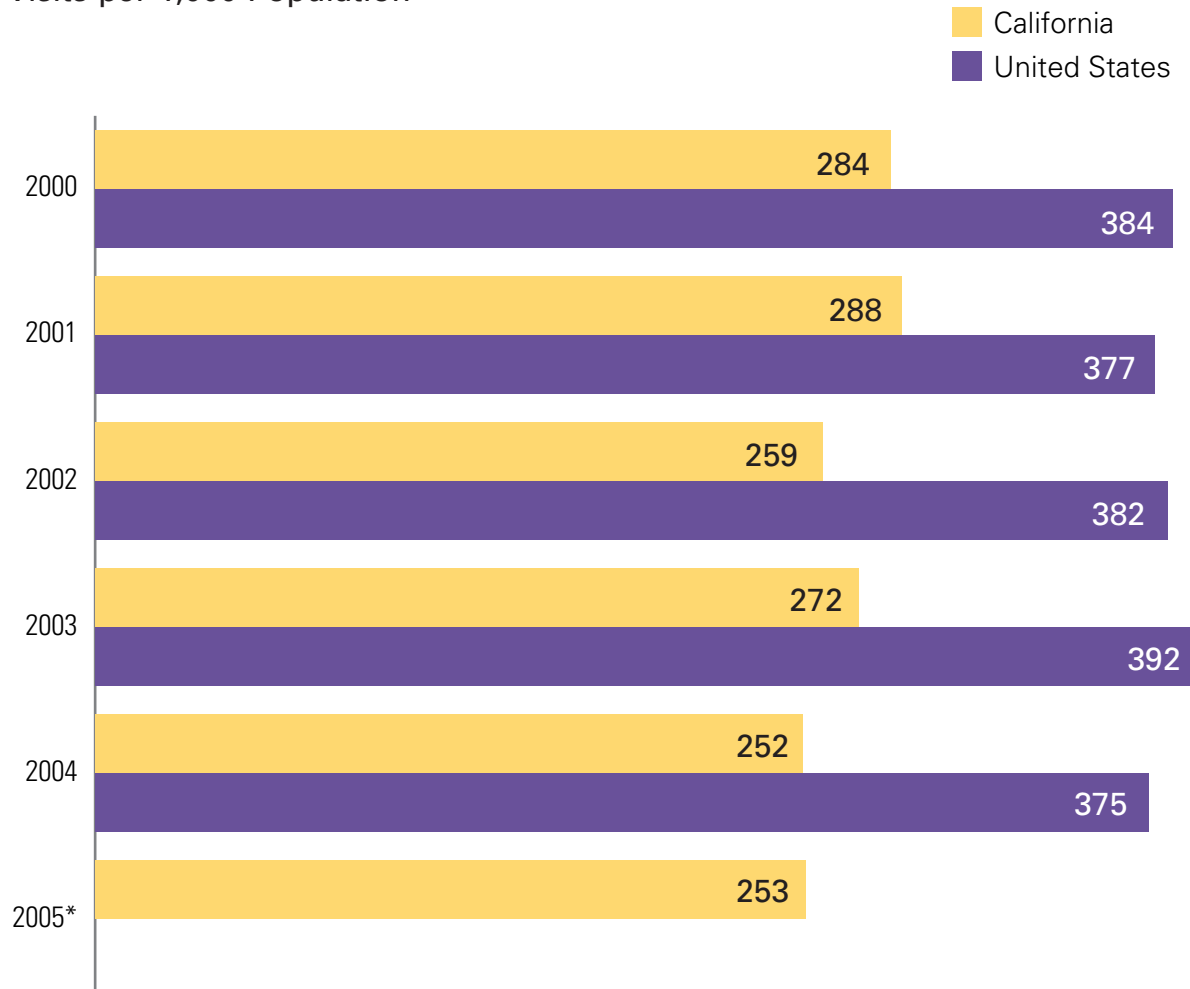
Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

California Hospitals

Occupancy rates have stayed relatively stable over time. Smaller hospitals had lower rates because of more available beds, while larger hospitals had higher rates and therefore fewer vacancies.

Emergency Department Utilization, California vs. United States, 2001–2005

Visits per 1,000 Population



*2005 United States data not yet available.

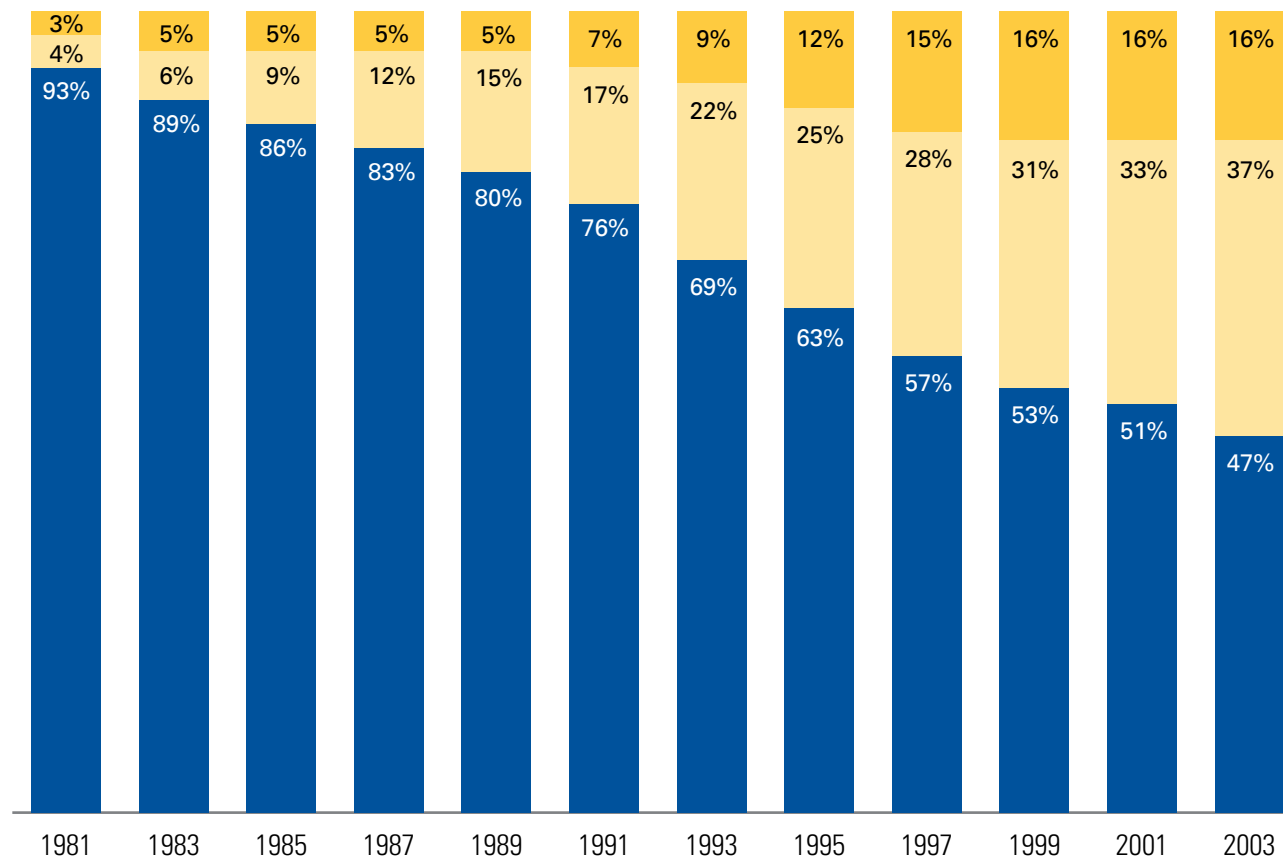
Source: The Abaris Group.

California Hospitals

Californians visit emergency departments less frequently than people across the nation.

Outpatient Surgeries, by Facility Type, United States, 1981–2003

- Physician Offices
- Freestanding Surgery Center
- Hospital-Owned Facility

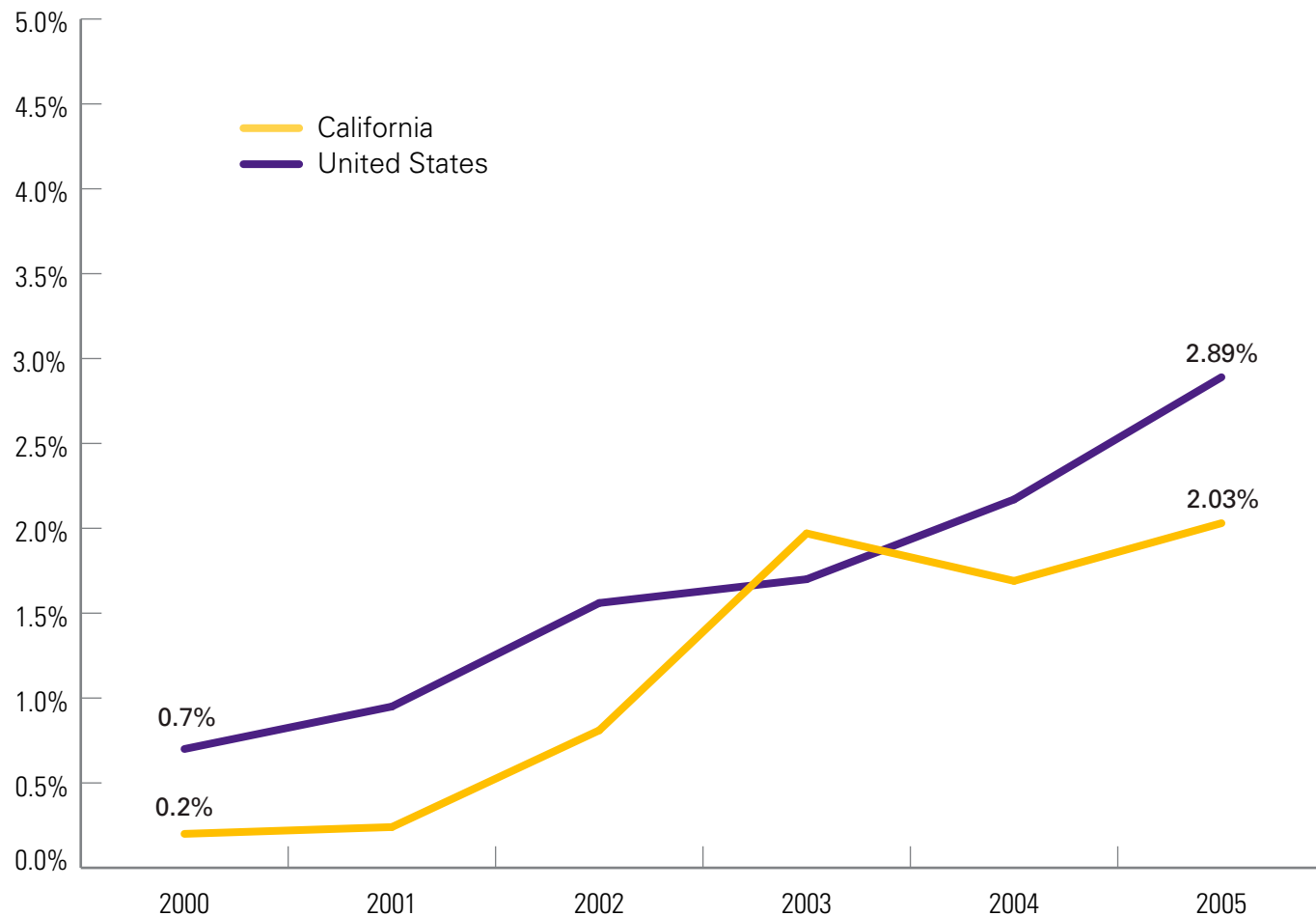


Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

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The majority of outpatient surgeries are now performed in a physician's office or surgery center, decreasing revenue for hospitals.

Median Operating Margins, California vs. United States, 2000–2005



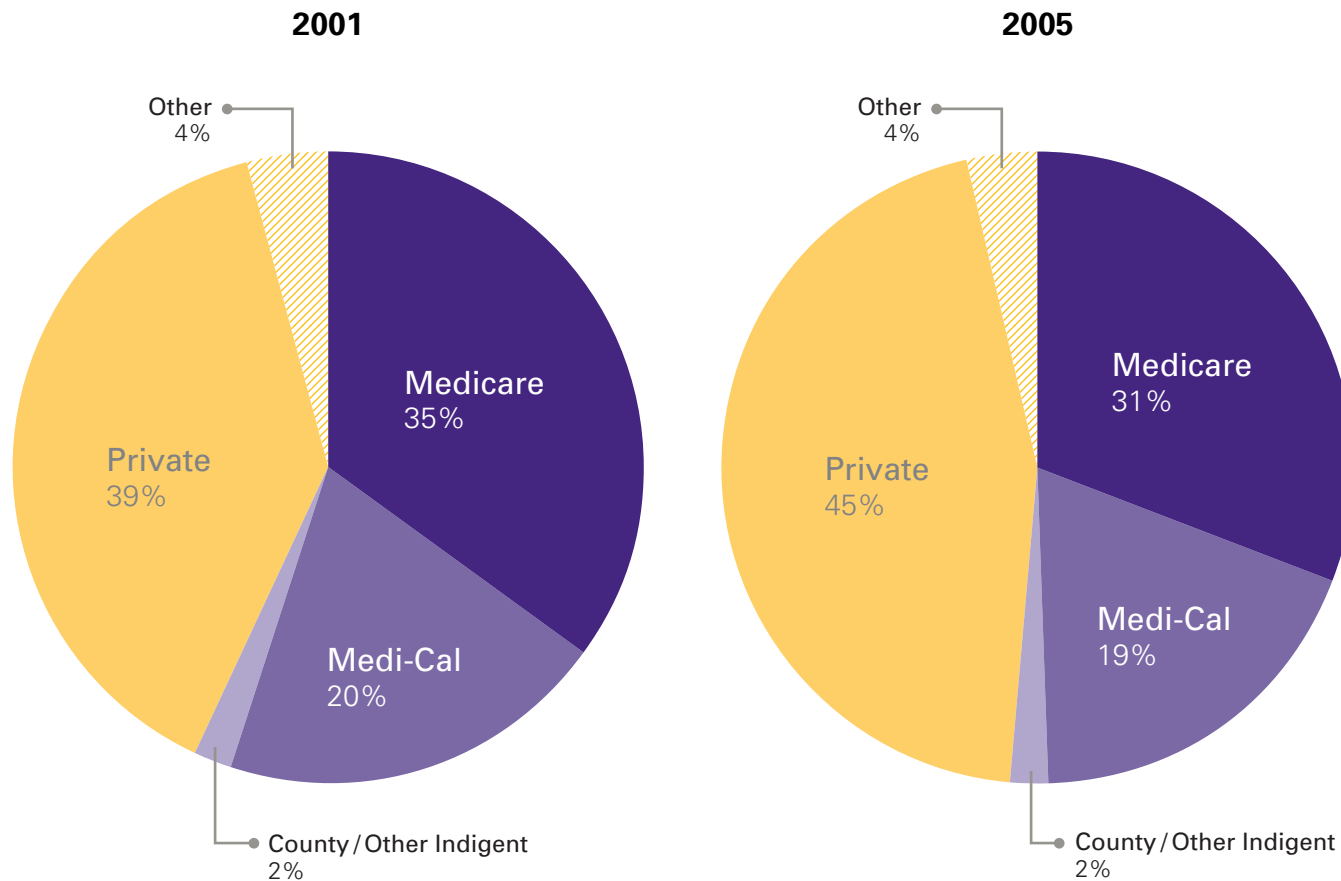
Note: California and national operating margins data from Ingenix, "Medicare Cost Report Indicators, Operating Margin," *Almanac of Hospital Financing and Operating Indicators*, 2005 and 2007.

Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

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Although, on average, California's hospitals were doing better financially in 2005 than they were in past years, their operating margins are still very slim, and are lower than the national average.

Net Patient Revenue Distribution, by Payer Category, 2001 and 2005

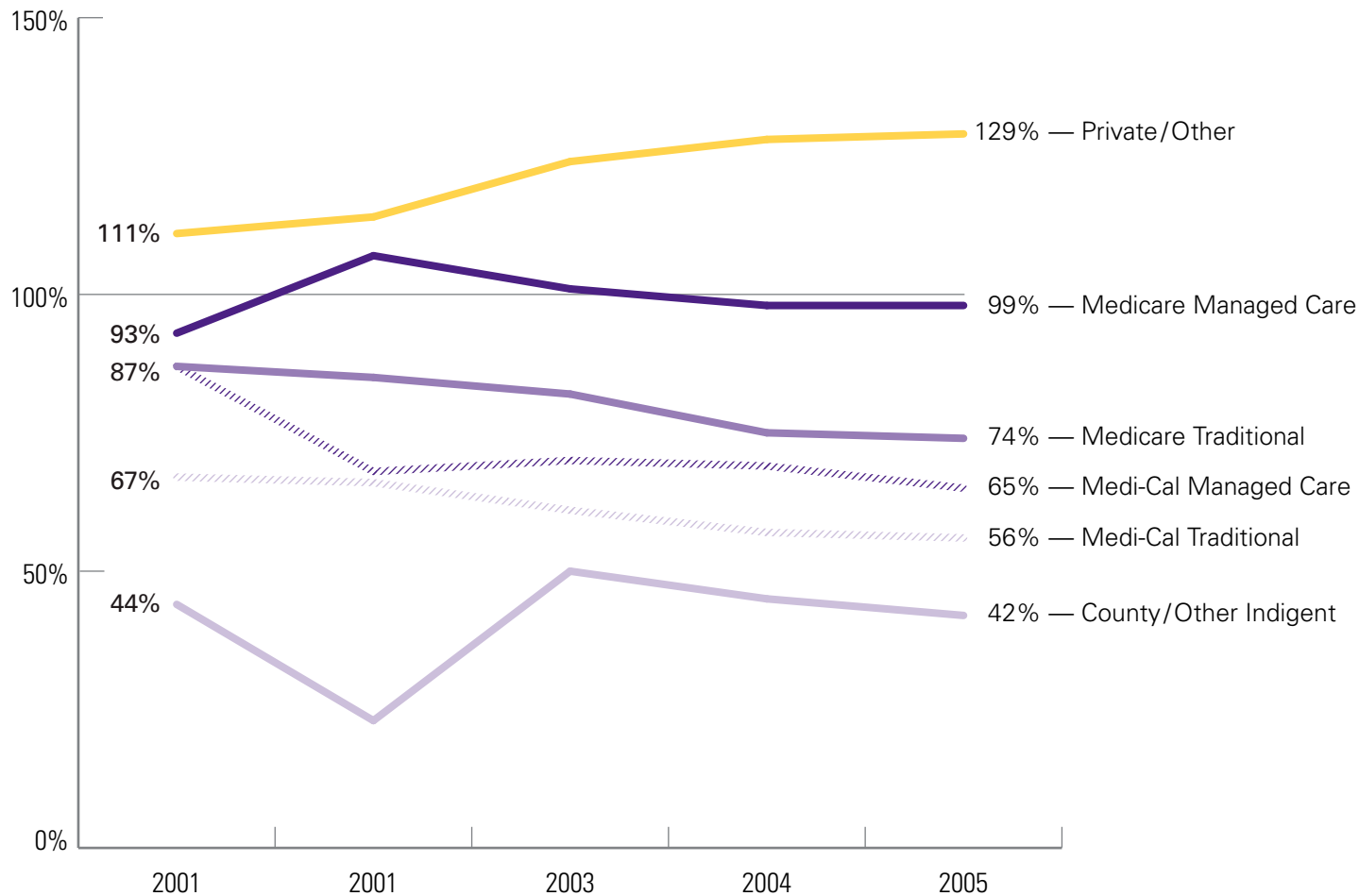


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Patient revenue has shifted significantly away from public programs to private insurance.

Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

Net Revenue as a Percentage of Average Cost per Adjusted Patient Day, by Payer, 2001–2005

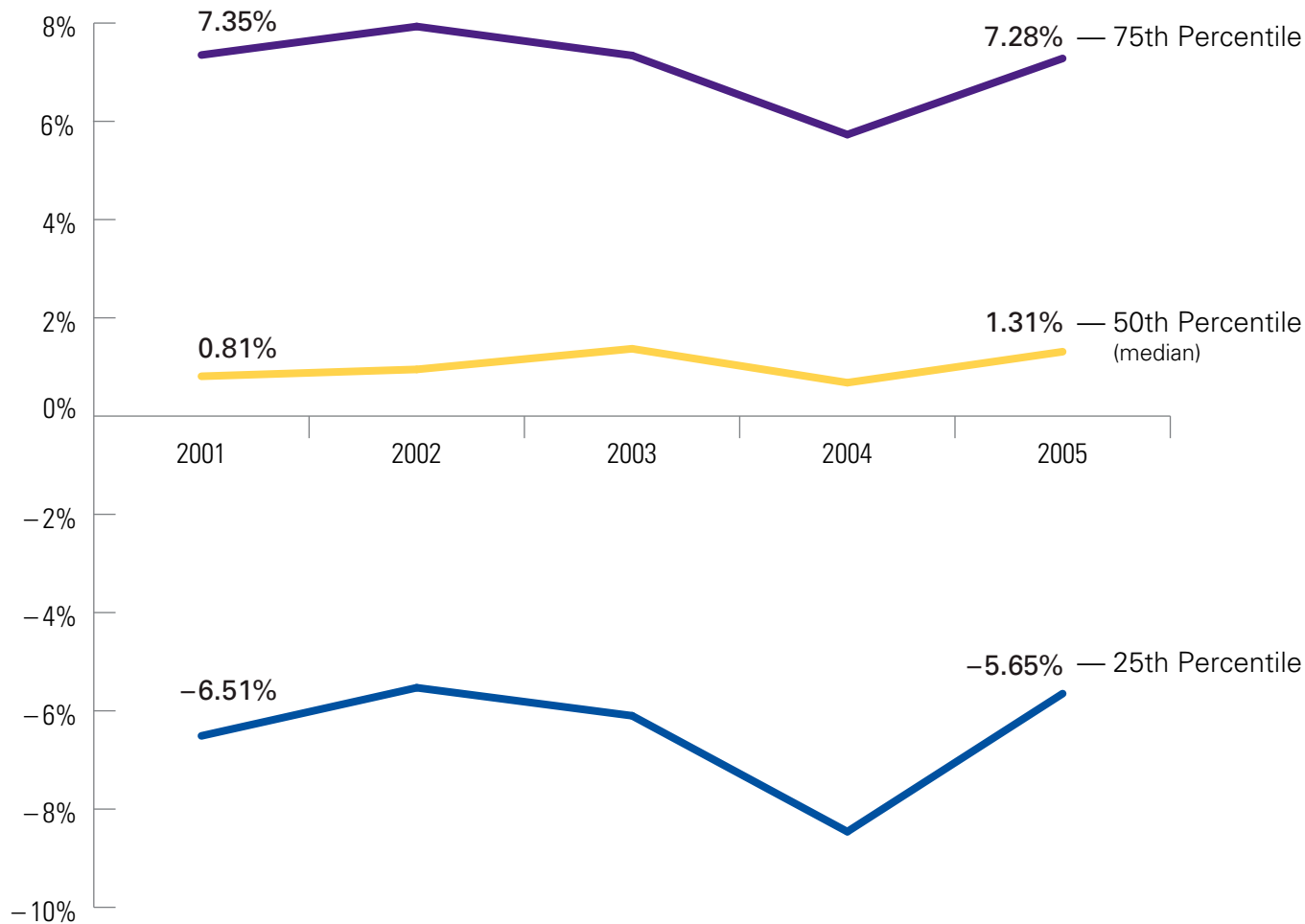


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While private insurance covers more than the average cost of providing care to those who are covered in the private market, public insurance doesn't provide enough revenue for hospitals to break even on the average costs of providing care to those covered by public programs (the break-even point is shown at 100 percent).

Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

Hospital Operating Margins, California, 2001–2005*



*Includes Kaiser Foundation Hospitals.

Note: California operating margins from the "Annual Hospital Financial Data," Office of Statewide Health Planning and Development (OSHPD), Pivot Profiles with data selected for general acute care hospitals.

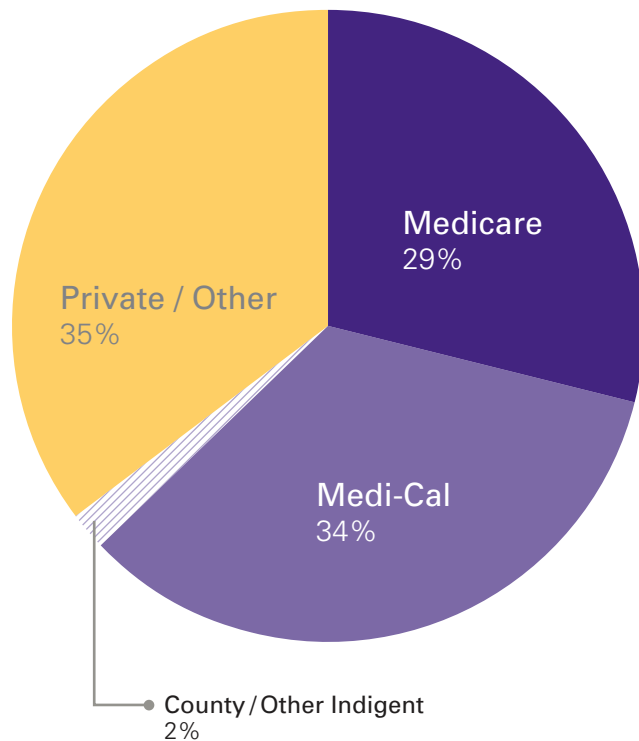
Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

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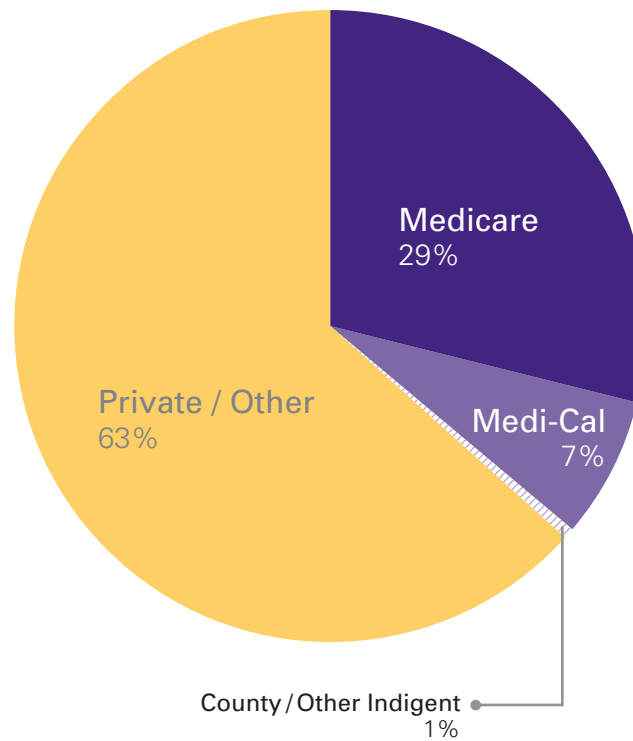
The gap between hospitals that are high financial performers (75th percentile) versus low financial performers (25th percentile), while still wide, has narrowed over time.

Hospital Net Revenue, by Payer Category and Financial Performance, California, 2005

Low Performance
(25th Percentile)



High Performance
(75th Percentile)



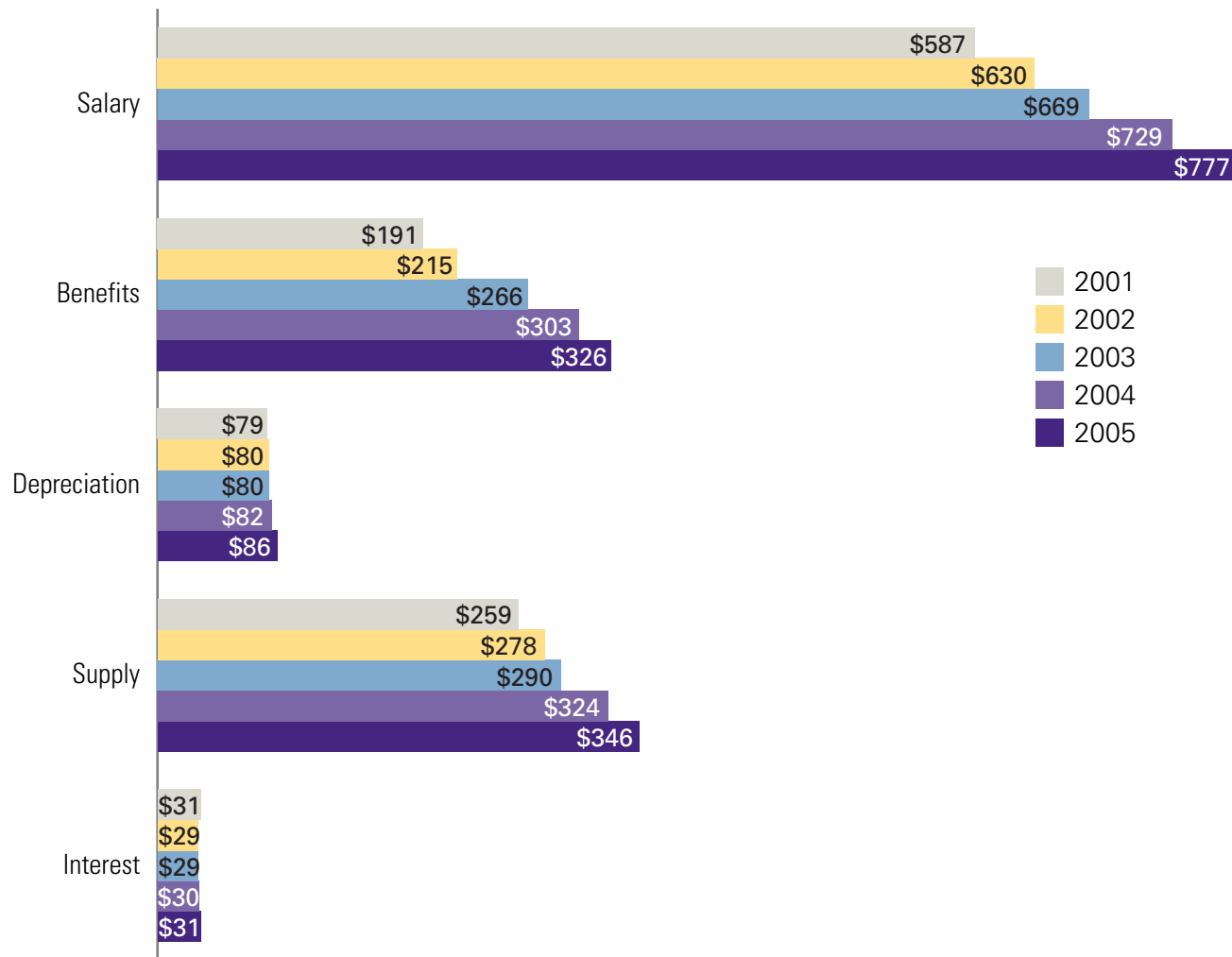
California Hospitals

Hospitals with lower financial performance are heavily dependent on government payers and are less able to recover losses through revenue from private insurers.

Note: Includes Kaiser Foundation Hospitals.

Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

Hospital Expenses per Adjusted Patient Day, Select Categories, California, 2001–2005

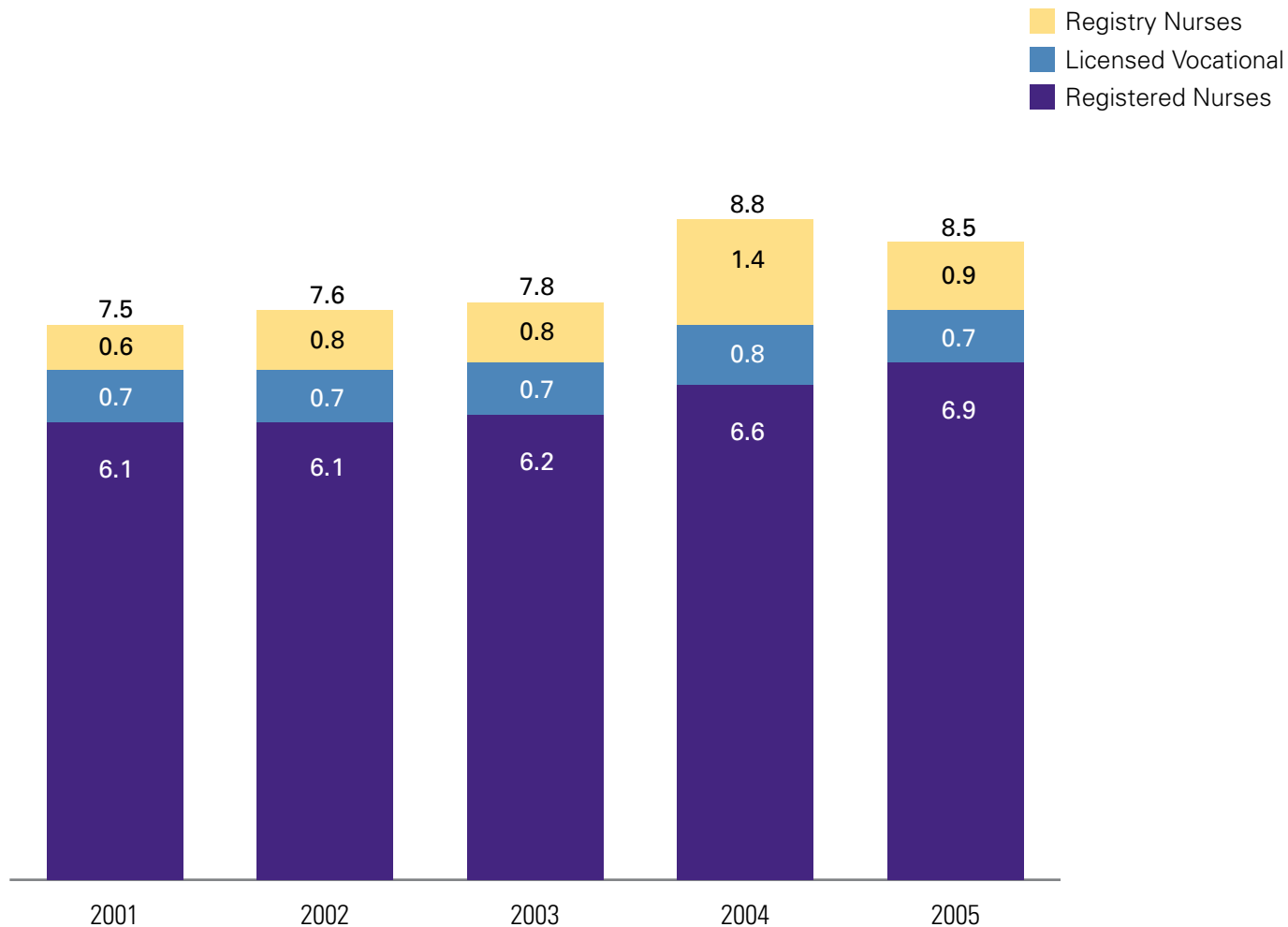


Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

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Salaries and benefits represent the largest share of hospital spending. Low depreciation and interest expenses may indicate that hospitals are not replacing old or out-of-date buildings.

Nursing Hours per Adjusted Patient Day, California, 2001–2005



Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

California Hospitals

Nursing hours per patient day have risen over the past five years, thereby contributing to the rise in costs to hospitals of salaries and benefits. The effect of the legislation to increase nurse to patient ratios is evident in 2004.

Key Hospital Financial Metrics Compared to Standard & Poor's Bond Credit Rating, California, 2005

BOND RATING	OPERATING MARGIN	DAYS CASH ON HAND
AAA-aaa		
Range	> 3.7%	> 204
Number of Hospitals	113	52
Percent of Hospitals	34%	16%
aaa-BBB		
Range	< 3.7% to > 1.6%	< 204 to > 110
Number of Hospitals	38	41
Percent of Hospitals	11%	12%
bbb-Junk		
Range	< 1.6% to > 0.4%	< 110 to > 46
Number of Hospitals	36	63
Percent of Hospitals	11%	19%
Junk		
Range	< 0.4%	< 46
Number of Hospitals	144	175
Percent of Hospitals	44%	53%

Notes: The purpose of this analysis is to provide another mechanism for analyzing the financial health of hospitals, but not all of the California hospitals are subject to review based on these ratings. The results as analyzed for the "Days Cash on Hand" metric reflect a potential for distortion between the "A or better" rating and the "Below Investment Grade" rating because many system hospitals sweep their cash into corporate accounts. This data excludes Kaiser Foundation hospitals. The Fitch rating for the Kaiser Permanente system was "A+" as of June 30, 2006.

Source: PricewaterhouseCoopers, *Financial Health of California Hospitals*, June 2007.

California Hospitals

More than 40 percent of California's hospitals are rated as junk bond status due to low operating margins and amounts of cash on hand.

Additional Resources

California Hospital Financial Performance Dashboard

An interactive online dashboard enables users to access and compare data on hospital patient volume, profitability, payer mix, operating metrics, and capital strength across a number of categories, including individual facilities, systems, all hospitals in a given legislative district or county, and various categories of ownership.

Available at www.chcf.org/topics/hospitals/index.cfm?itemID=131619.

Financial Challenges for California Hospitals

Shattuck Hammond Partners

This issue brief covers the major findings of a Shattuck Hammond Partners study that examined hospital financial performance for the years 1995 through 1999. Findings include analysis of data for all 409 California hospitals that submitted disclosure reports in those years to federal and state agencies.

Available at www.chcf.org/topics/hospitals/index.cfm?itemID=12707.

PricewaterhouseCoopers' Health Research Institute

This Web site focuses on large scale issues and major developments and includes analysis on health care trends, as well as key insights and industry best practices.

Available at www.pwc.com/healthcare.

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FOR MORE INFORMATION



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