CHCF Regional Market Report: Inland Empire
December 9, 2020
Regional Market Reports — Project Overview

• Studies of seven large, diverse regional markets to:
  • Examine the structure and performance of local health care systems
  • Identify common themes and emerging issues that influence how Californians receive health care

• Markets in 2020 study are Central Valley, Humboldt/Del Norte, Los Angeles, Riverside/San Bernardino, Sacramento Area, San Diego, and the San Francisco Bay Area

• Series of seven webinars between Nov. 2020 and Feb. 2021 to share results

• Consulting team includes Katrina Connolly, Caroline Davis, Len Finocchio, Matt Newman, James Paci, and Jill Yegian
Panelists

Matt Newman  Dr. Takashi M. Wada  Dolores L. Green  Jodie Wingo
Inland Empire:
Increasing Medi-Cal Coverage Spurs Safety-Net Growth
Matthew Newman and James Paci, Blue Sky Consulting Group
December 9, 2020
Approach and Information Sources

Regional market study tells the story of the health care landscape and developments over the last five years

Interviews with 21 regional leaders representing:
- Health plans
- Health care providers
- County governments
- Community leaders

Analysis of:
- Quantitative data from surveys, census, and other sources
- Industry reports, journal articles, and news stories

Context: project launched prior to COVID-19
- Interviews conducted January–August 2020

Team effort: coauthor James Paci, contributions from Blue Sky Consulting Group team
The Inland Empire is:

- A fast-growing region that is home to more than 4.5 million people
- Divided geographically between more urban west and more rural east
- More affordable than many parts of California

Compared to California overall, population is:

- Younger
- More Latinx
- Less likely to have high incomes or go to college
- Less likely to have private insurance
Inland Empire Residents Report Poorer Health Relative to Californians Generally

Compared to California overall, population is more likely to:

- Report fair/poor health
- Have diabetes
- Have asthma
- Be obese
- Have a preterm birth

The population also is more likely to report psychological distress and has a somewhat higher suicide rate compared to Californians generally.

Health Insurance Coverage in the Region Is Dominated by Two Players

• Kaiser Permanente covers roughly 1 in 4 residents, primarily in the commercial sector
  • Kaiser also covers 40% of customers on the state’s health insurance exchange (Covered California) and nearly one-third of Medicare Advantage enrollees

• The Inland Empire Health Plan (IEHP), the region’s largest Medi-Cal managed care plan, covers 9 in 10 Medi-Cal enrollees, or about 1 in 4 residents across the region
  • IEHP’s 1.3 million members and 6,000 network providers make it a dominant force in the region, facilitating implementation of quality improvement initiatives
  • IEHP’s influence is tempered to some extent by the decentralized nature of the provider landscape
Provider Trends: Smaller Independent Practices Are Common

- Compared to other parts of the state, the Inland Empire has a relatively large number of independent practices and small medical groups.
- This landscape is evolving in the face of financial pressures and retirements.
- Many newly trained providers prefer an employment relationship with a larger organization.
- As a result, many providers have joined Federally Qualified Health Centers (FQHCs), larger medical groups, or Kaiser.
Provider Trends: Dramatic Growth in Federally Qualified Health Centers

- FQHCs have seen dramatic growth over the past several years, with encounters per capita increasing 137% since 2014 as many new sites opened throughout the region.

- Nevertheless, encounters per capita are just half the statewide average, suggesting there is still room for FQHC expansion.

- Clinic operating margins have held steady, despite the increase in care for patients with Medi-Cal coverage.

### TABLE 5. Federally Qualified Health Centers

<table>
<thead>
<tr>
<th></th>
<th>INLAND EMPIRE</th>
<th>CALIFORNIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patients per capita</td>
<td>0.07</td>
<td>0.15</td>
</tr>
<tr>
<td></td>
<td>Change from 2014*</td>
<td>2014*</td>
</tr>
<tr>
<td></td>
<td>91%</td>
<td>29%</td>
</tr>
<tr>
<td>Encounters per capita</td>
<td>0.26</td>
<td>0.51</td>
</tr>
<tr>
<td></td>
<td>137%</td>
<td>35%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>–5.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>–1%</td>
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</table>

*Reflect the percentage change in patients/encounters per capita, and the absolute change in margins. Notes: Includes FQHC Look-Alikes, community health centers that meet the requirements of the Health Resources and Services Administration Health Center Program but do not receive Health Center Program funding. Patients may be double counted if they visit more than one health center.

Provider Trends: Hospital Finances Improve, Market Still Unconsolidated

- Region is home to 38 hospitals:
  - Includes 12 independent hospitals accounting for 30% of discharges
  - Remaining hospitals are part of smaller local systems or larger state or national networks
- Measures of market share show that region is less concentrated than most other parts of CA
- Some hospitals dominate their local submarket
- Financial performance of region’s hospitals has improved over past several years
- However, some hospitals have closed pediatric units in response to financial pressures and a move toward treatment in a more specialized setting

**TABLE 6. Hospital Performance (Acute Care)**
Inland Empire vs. California, 2018

<table>
<thead>
<tr>
<th>Measure</th>
<th>Inland Empire</th>
<th>California</th>
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<tbody>
<tr>
<td>Beds per 100,000 population</td>
<td>158</td>
<td>178</td>
</tr>
<tr>
<td>Operating margin*</td>
<td>2.3%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Paid FTEs per 1,000 adjusted patient days*</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Total operating expenses per adjusted patient day*</td>
<td>$3,088</td>
<td>$4,488</td>
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</table>

*Excludes Kaiser.
Note: FTE is full-time equivalent.
Use of Data to Drive Performance Still Evolving

- Region’s health information exchange (HIE), Manifest MedEx, has made important inroads in establishing connections, particularly among hospitals and larger health centers, clinics, and providers.

- Several initiatives have sought to increase utilization, including:
  - Financial incentives from IEHP for hospital participation
  - New data sources continue to be added, including claims data from health plans
  - IEHP-funded effort to incentivize independent practices to migrate to one of a small set of cloud-based EHR systems that would be integrated with Manifest MedEx

- However, use of Manifest MedEx remains limited:
  - Many smaller providers do not participate
  - Use of system is often not integrated with EHR systems or daily practice
  - Many providers have adopted their own systems for collecting, using, and sharing information
Health Workforce Shortage a Major Challenge

Challenges:
- Significant health workforce shortages, including physicians, nurses, behavioral health providers
- Especially difficult in more remote eastern regions
- Difficult to compete with more geographically desirable locations elsewhere in Southern California

Multiple responses:
- IEHP Network Expansion Fund helps pay salaries for new providers
- Practices leveraging personal networks to aid in recruiting
- Higher physician salaries compared to surrounding areas
- New and expanding medical schools may ease shortage in coming years

| TABLE 7. Physicians: Inland Empire vs. California, 2020 |
|---------------------------------|-----------------|-----------------|-----------------|
|                                  | Inland Empire   | California       | Recommended Supply* |
| Physicians per 100,000 population†| 125.3           | 191.0           | —                |
| Primary care                     | 41.5            | 59.7            | 60–80            |
| Specialists                      | 83.3            | 130.8           | 85–105           |
| Psychiatrists                    | 8.2             | 11.8            | —                |
| % of population in HPSA (2018)   | 29.6%           | 28.4%           | —                |

*The Council on Graduate Medical Education (COGME), part of the US Department of Health and Human Services, studies physician workforce trends and needs. COGME ratios include doctors of osteopathic medicine (DOs) and are shown as ranges above.
†Physicians with active California licenses who practice in California and provide 20 or more hours of patient care per week. Psychiatrists are a subset of specialists.
Sources: Healthforce Center at UCSF analysis of Survey of Licensees (private tabulation), Medical Board of California, January 2020; and Health Professional Shortage Area (HPSA) data from Shortchanged: Health Workforce Gaps in California, California Health Care Foundation, July 15, 2020.
COVID-19

Key metrics through fall 2020:
- More cases and deaths than statewide
- Unemployment almost tripled
- CARES Act funding per capita just 2/3rds of statewide average through August
- Expected increase in Medi-Cal enrollment starting to materialize

Early provider experience:
- Significant financial pressure on many providers, especially those relying on fee for service; capitation eases strain
- Concern about health plan incentive payments for 2021 if quality goals not achieved due to pandemic
- Rapid and potentially lasting pivot to telehealth

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<thead>
<tr>
<th>TABLE 8. COVID-19 Impacts: Inland Empire vs. California</th>
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<tbody>
<tr>
<td><strong>UNEMPLOYMENT RATE</strong></td>
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<tr>
<td>- Pre-pandemic (FEBRUARY 2020)</td>
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<td>- Mid-pandemic (OCTOBER 2020)</td>
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<thead>
<tr>
<th><strong>MEDI-CAL ENROLLMENT</strong></th>
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<tr>
<td>- Percentage change (FEBRUARY TO OCTOBER 2020)</td>
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<tr>
<th><strong>CARES ACT, PER CAPITA (AUGUST 2020)</strong></th>
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<tr>
<td>- Provider Relief Funds</td>
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<td></td>
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<td>- High Impact Funds</td>
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Issues to Track

- How will the physician landscape evolve?

- Will the hospital market move toward consolidation in the face of increasing cost pressures?

- Will FQHC expansion continue?

- Will Manifest MedEx, the region's HIE, make inroads with providers, especially smaller physician practices?

- What will result from the region's strategy of growing its own physicians through the opening of multiple new medical schools?

- How severe will the economic consequences of COVID-19 be for the region? How will safety-net services and initiatives fare in an era of budget cuts?