



# Heading for an Acute Crisis?

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

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

This issue brief updates prior estimates of utilization, costs, and revenue in California hospitals through the end of 2022. The analysis is primarily based on utilization and financial data covering calendar years 2019 through 2022 for 348 acute care hospitals that reported each quarter throughout the period.<sup>4</sup> These 348 facilities are classified as "comparable" by the California Department of Health Care Access and Information (HCAI) and represent about 80% of hospital capacity in the state.<sup>5</sup> Excluded from the analysis are Kaiser hospitals, which account for 8% of statewide bed capacity, as well as state, long-term psychiatric, long-term care, and other noncomparable facilities.

The data in this analysis paint a nuanced and rapidly changing portrait of the operations and financial health of California hospitals through the end of

2022. Total hospital volume (outpatient visits including emergency department visits plus inpatient days) rebounded to prepandemic levels by Q2 of 2021 and now exceeds 2019 levels by 6%. While net patient revenue across all payers increased yearly in 2020, 2021, and 2022, so did underlying expenses, due in part to higher acuity of services and rising staffing and supply costs. Nonoperating revenue, an increasingly important source of financial stabilization for many California facilities, grew markedly in 2020 and 2021 before declining sharply in the first three quarters of 2022.

Taken together, the large sample of hospitals reported total net income of \$5.2 billion in 2020, around half the net income of the previous year. Hospitals netted \$9.2 billion in 2021, still slightly less than they made before the pandemic. The data reveal a sudden and sharp decline to \$207 million in net income for California hospitals in 2022. Within this broader decline in profitability, a subset of facilities experienced significant losses. Hospitals with the worst net income margins varied substantially based on size, geographic area, and patient population. Notably, those with the lowest margins were not necessarily more dependent on Medi-Cal or Medicare volume than the average California hospital.

Excluded from this analysis is information on the liquidity of hospitals and health systems in California. Previous national and state studies have shown that, like measures of income and profitability, indicators of overall financial status and financial reserves vary dramatically among facilities and systems.<sup>6</sup>

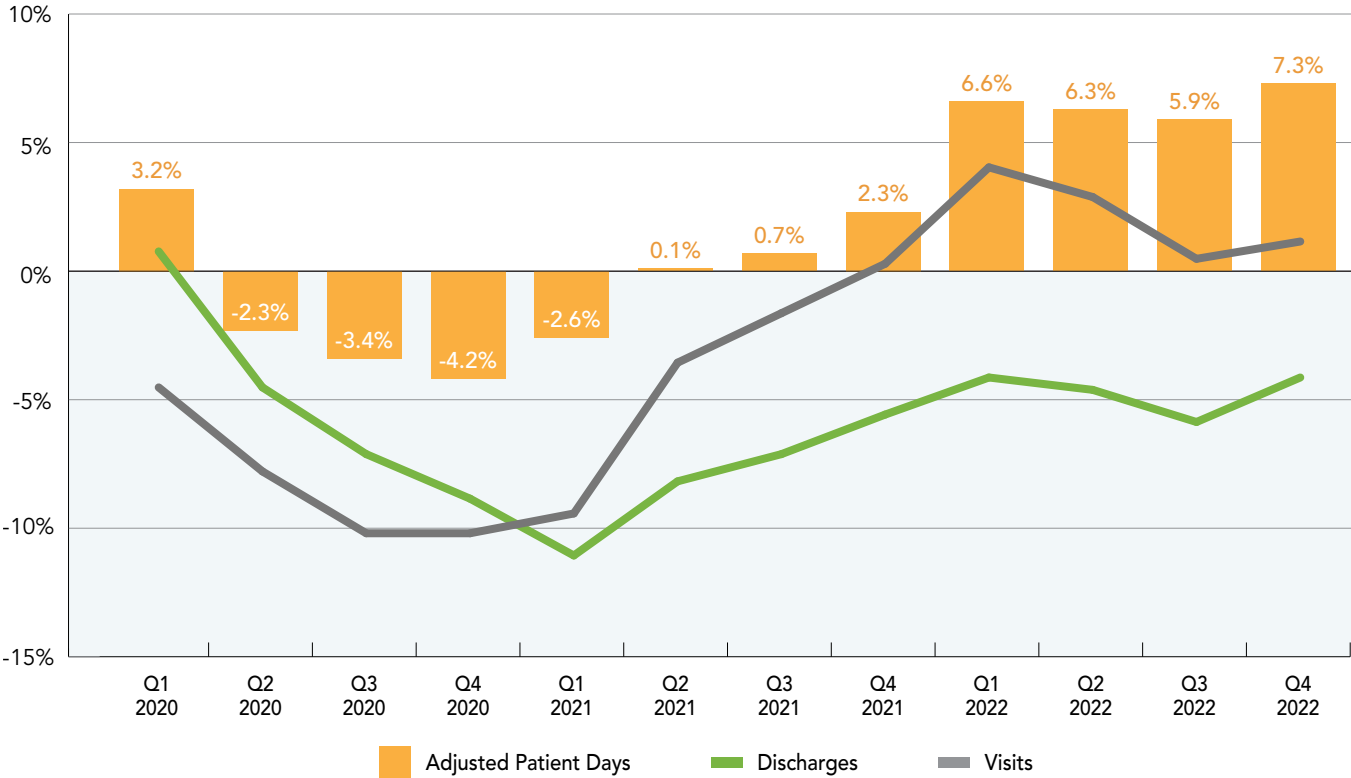
# Utilization: Total Hospital Volume Rebounds, Average Length of Stay Increases

Inpatient discharges, outpatient visits, and average length of stay are all key indicators of hospital utilization and important inputs into a facility’s financial performance. HCAI utilization data show that inpatient discharges declined sharply beginning in the second quarter of 2020 and have remained 4% below prepandemic levels through the end of 2022 (Figure 1). Outpatient volume also dropped dramatically in 2020, though these visits returned more quickly and

began exceeding prepandemic levels by the last quarter of 2021.

Taken together, an aggregate measure of total hospital volume that incorporates inpatient discharges, outpatient visits, and the acuity of services delivered within a facility rebounded the quickest. These “total adjusted patient days” fell between 2% and 4% during the last three quarters of 2020 and the first quarter of 2021. Total adjusted days exceeded 2019 levels by 6% to 7% each quarter of 2022. This increase is largely explained by a longer average length of stay (ALOS) for patients receiving inpatient services and the return of outpatient visit volume to prepandemic levels.

**Figure 1. Inpatient Discharges, Outpatient Visits, and Adjusted Patient Days in California Hospitals, 2020–22, Percentage Change from 2019, by Rolling Four Quarters**

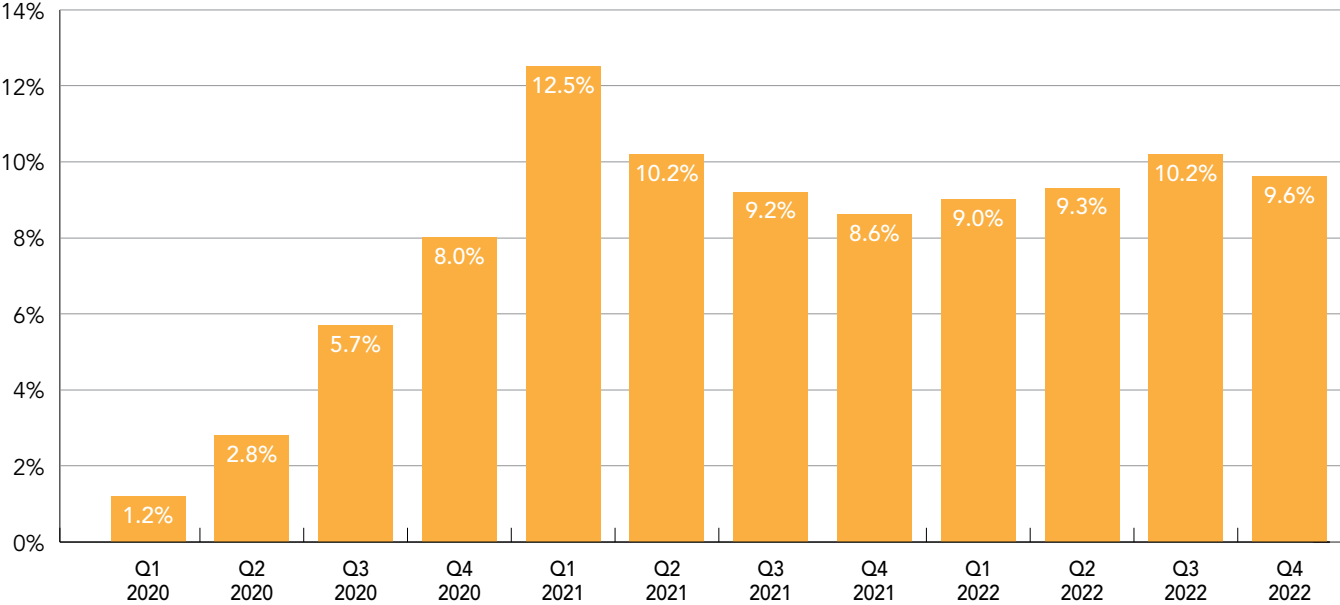


Note: Percentage calculated to compare by quarter the rolling four quarter data for 2020 and onward to the rolling four quarters ending in 2019.  
 Source: “Hospital Quarterly Utilization and Financial Report - Sum of Four Quarters,” California Health and Human Services Agency, 2019 Quarter 1 - Sum of Four Quarters to 2022 Quarter 4 - Sum of Four Quarters.

The increase in ALOS for inpatients in California hospitals is detailed in Figure 2. By the first quarter of 2021, ALOS was roughly 12.5% higher across all payers, 6.2 days compared to a starting point of 5.5 days, with a range across payer groups of 5.2 (third-party) to 6.5 (Medi-Cal). This trend generally persisted throughout 2022 and was at 6.0 days at the end of the year. While

the largest driver of this increase is a more complex hospital case mix for patients admitted to California hospitals,<sup>7</sup> another widely reported factor is the growing number of “administrative” days for patients who cannot be appropriately discharged to rehabilitation facilities, nursing homes, and other sources of post-acute care.<sup>8</sup>

**Figure 2. Average Length of Stay in California Hospitals, 2020–22, Percentage Change from 2019, by Rolling Four Quarters**



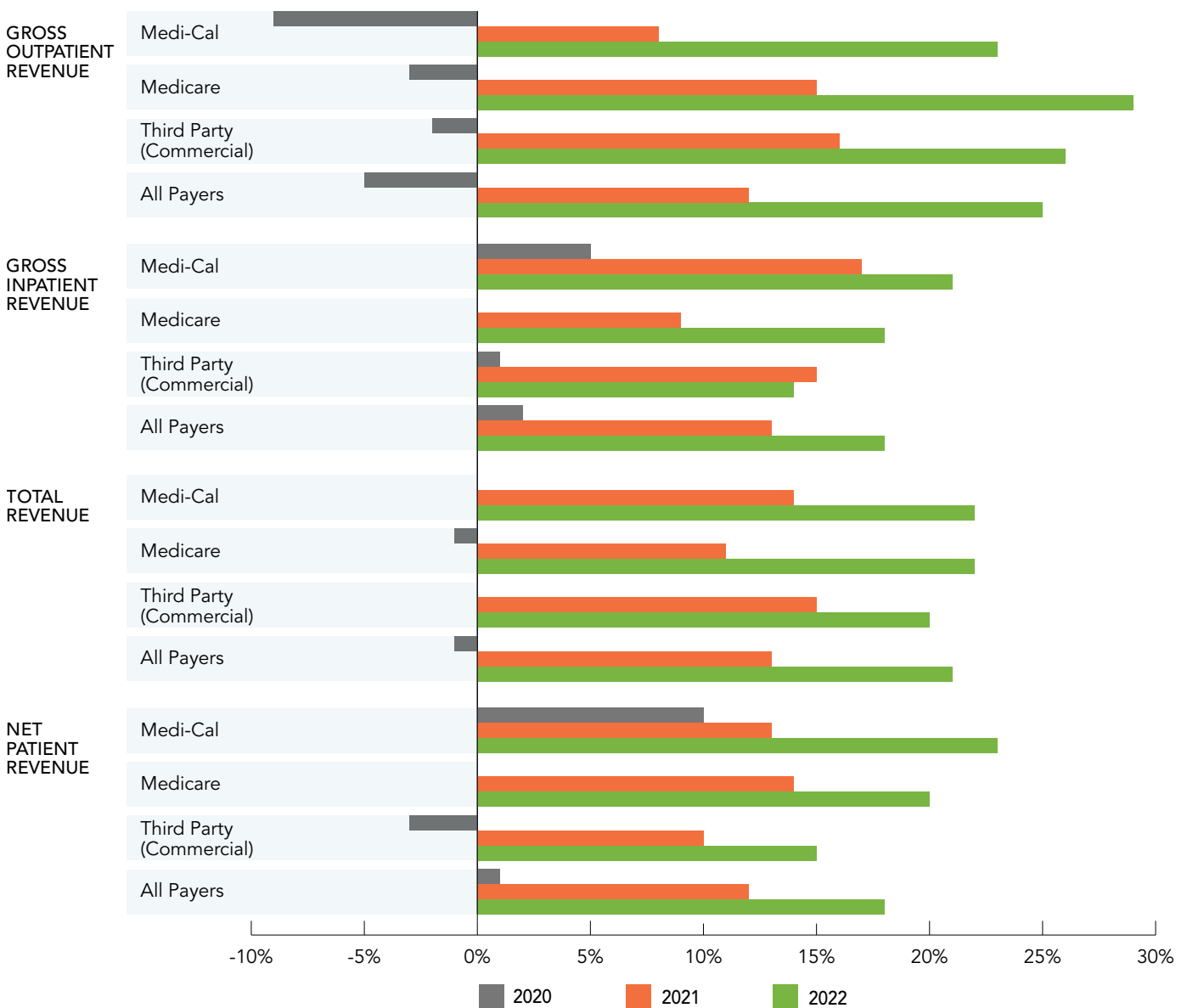
Note: Percentage calculated to compare by quarter the rolling four quarter data for 2020 and onward to the rolling four quarters ending in 2019.  
 Source: “Hospital Quarterly Utilization and Financial Report - Sum of Four Quarters,” California Health and Human Services Agency, 2019 Quarter 1 - Sum of Four Quarters to 2022 Quarter 4 - Sum of Four Quarters.

# Revenue: Increases in Net Patient Revenue, Variability in Other Revenue Sources

Figure 3 details the revenue received by California hospitals for inpatient, outpatient, and all services in 2020, 2021, and 2022. Relative to 2019, hospitals in 2020 experienced a 5% decrease in outpatient

revenue, which rebounded sharply and exceeded prepandemic levels by 12% in 2021 and 26% in 2022. Inpatient revenue slowed but remained 2% higher than prepandemic levels in 2020, growing to 18% above 2019 levels in 2022. Taken together, total net patient revenue (total revenue collected minus any contractual adjustments) from all lines of business and payers was 1% higher than prepandemic levels in 2020, 12% higher in 2021, and 18% higher in 2022.

**Figure 3. Gross Outpatient, Inpatient, and Net Patient Revenue by Payer in California Hospitals, 2020–22, Percentage Change from 2019**

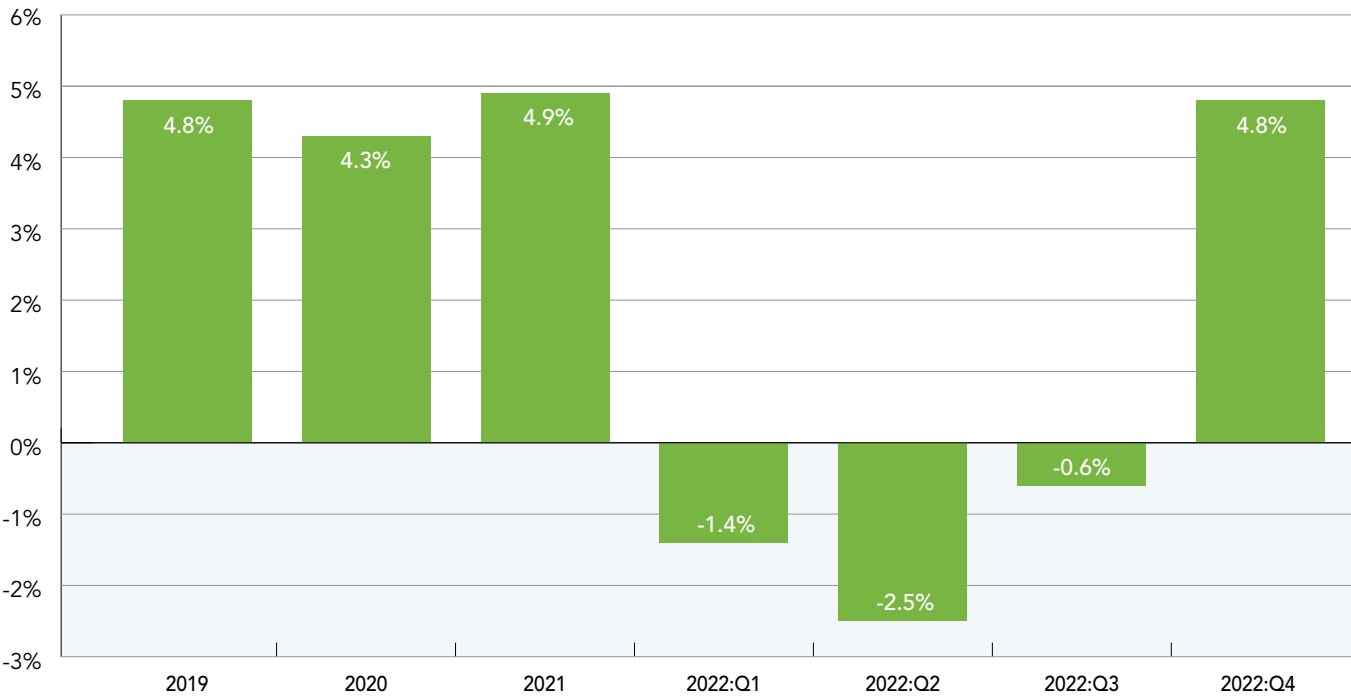


Source: "Hospital Quarterly Utilization and Financial Report - Sum of Four Quarters," California Health and Human Services Agency, 2019 Quarter 1 - Sum of Four Quarters to 2022 Quarter 4 - Sum of Four Quarters.

An important source of revenue for many hospitals in California derives from activity not directly related to care of patients. This “nonoperating revenue” includes outside investment income (e.g., financial market returns), payments to hospitals for real estate (e.g., doctor office rentals), and income from endowments, and may be reduced by major capital spending. Figure 4 highlights the relative contribution of nonoperating revenue to overall revenue in the year right before and during the most acute phases of the COVID-19 pandemic.

In 2019, hospitals in California reported \$5.9 billion in net nonoperating revenue, or 4.8% of their total revenue that year. Net nonoperating revenue totaled \$5.4 billion in 2020 and \$6.7 billion in 2021, or roughly 4% to 5% of total revenue in those years.<sup>2</sup> Net nonoperating revenue fell precipitously in the first quarters of 2022 as inflation took hold in the broader economy and financial market returns slowed significantly. Despite a slight rebound in the fourth quarter, net nonoperating revenue totaled just \$109 million for all of 2022.

**Figure 4. Net Nonoperating Revenue as a Percentage of Total Revenue in California Hospitals, 2019–22**



Source: “Hospital Quarterly Utilization and Financial Report - Sum of Four Quarters,” California Health and Human Services Agency, 2019 Quarter 1 - Sum of Four Quarters to 2022 Quarter 4 - Sum of Four Quarters.

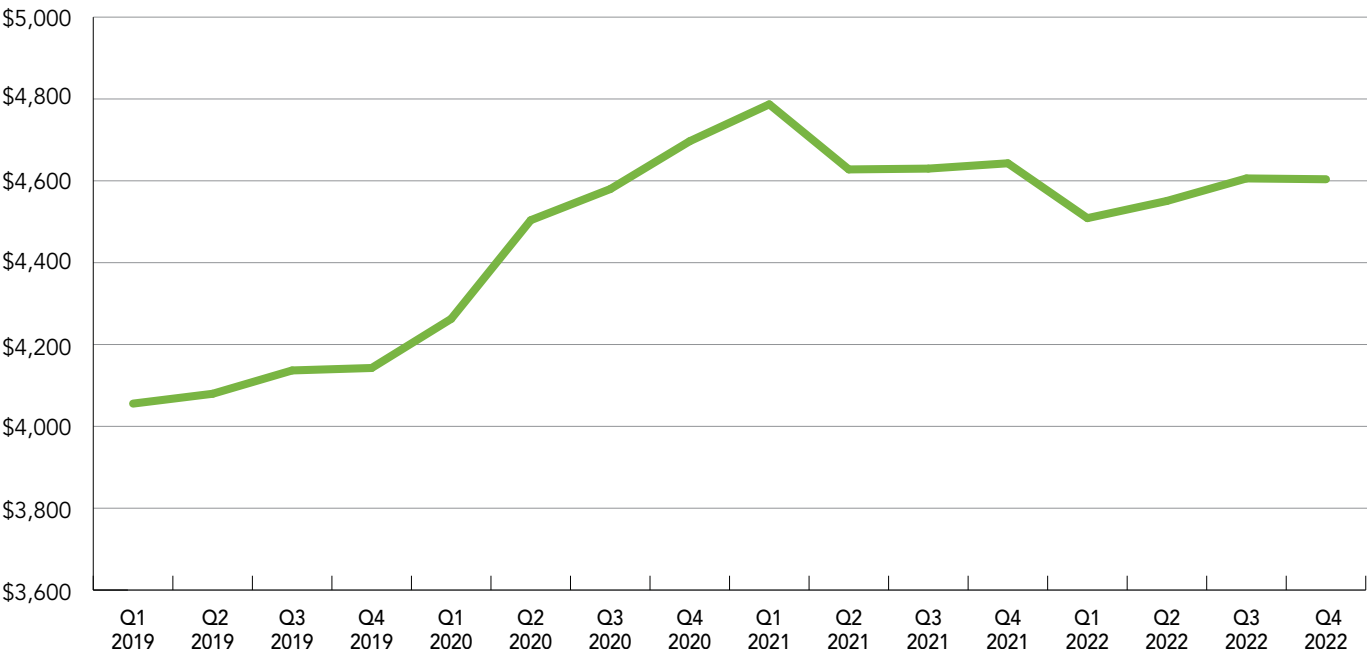
# Expenses Increase Rapidly Through 2020 Before Stabilizing

Underlying expenses for hospital operations grew rapidly in the first two years of the COVID-19 pandemic. As reported in multiple studies, facilities incurred additional costs for pandemic-related safety and mitigation efforts, contract nursing staff, and higher supply costs.<sup>10</sup> Anecdotally, higher labor and supply costs and

higher case-mix severity have remained persistent factors three years since the onset of the pandemic.

As seen in Figure 5, operating expense per adjusted day increased rapidly early in the pandemic, from \$4,056 in the first quarter of 2019 to almost \$4,800 in the first quarter of 2021. This represented an increase of over \$740 per day, or 18%. Notably, operating expenses per adjusted day began to stabilize after that, but remained at about \$4,600 per adjusted patient day, roughly 13% higher than before the pandemic.

Figure 5. Total Operating Expenses per Adjusted Patient Day in California Hospitals, 2019–22



Source: "Hospital Quarterly Utilization and Financial Report - Sum of Four Quarters," California Health and Human Services Agency, 2019 Quarter 1 - Sum of Four Quarters to 2022 Quarter 4 - Sum of Four Quarters.

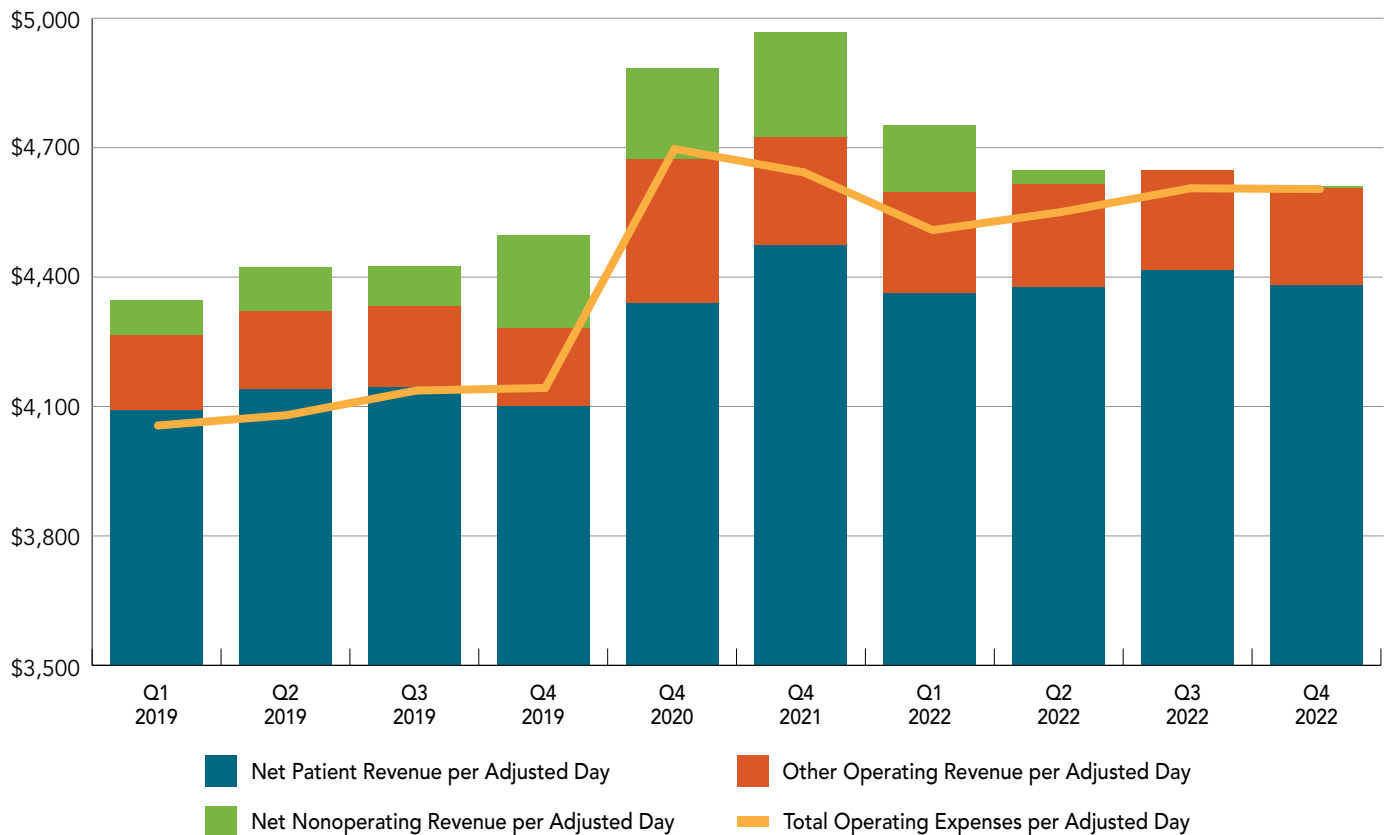
# The Bottom Line: Total Margins Eroded in 2022 After Significant Profitability in 2021

Figure 6 summarizes quarterly trends in revenue and net income per adjusted day for 2019 through 2022. In 2019, operating costs were covered by net patient revenue — essentially, hospitals were breaking even on providing care to patients. In addition, given positive net nonoperating revenue sources, hospitals generated positive total net income margins, averaging \$320 in net income per adjusted day in 2019.

Beginning in 2020 this pattern began to change. As detailed in the previous section, expense per adjusted day increased substantially and faster than increases in net patient revenue by the second quarter of 2020. As a result, hospitals on the whole suffered negative margins on patient care. However, these losses were offset by increases in both “other operating” and non-operating revenue sources, which included substantial federal COVID-19-related help and favorable investment returns.

This allowed California hospitals to report positive net income margins per adjusted day in 2020 and 2021. In fact, net income margins in 2021 averaged more than \$335 per adjusted day, higher than prepandemic 2019.

**Figure 6. Sources of Revenue and Total Operating Expenses per Adjusted Patient Day in California Hospitals, 2019–22**



Sources: “Hospital Quarterly Utilization and Financial Report - Sum of Four Quarters,” California Health and Human Services Agency, 2019 Quarter 1 - Sum of Four Quarters to 2022 Quarter 4 - Sum of Four Quarters.; “HCAI Quarterly Profile Characteristics,” Department of Health Care Access and Information, (Search terms: Aggregate, Four Quarters Ending Q4 2019-22, Comparable, All Hospitals, CA Statewide).

Figure 7 details total operating revenue, nonoperating revenue, and net income across all California comparable hospitals for 2019–22.<sup>11</sup> In 2019, hospitals reported \$4 billion in net operating revenue and \$6 billion in net nonoperating revenue, for total pretax net income of roughly \$10 billion. Hospitals reported losing \$222 million on patient care during the first year of the pandemic, though as detailed above, these

losses were offset by \$5.4 billion in net nonoperating income, leading to \$5.2 billion in net income in 2020. Higher operating margins and continued nonoperating revenue growth led to net income of \$9.2 billion in 2021. There was a sharp decline in net profitability across all hospitals in 2022, though the sector ended the year about \$207 million in the black.

**Figure 7. Summary Income Statement for California Hospitals, 2019–22**

	2019	2020	2021	2022
Net Patient Revenue	\$111,409,172,421	\$112,286,819,861	\$123,557,433,336	\$130,852,111,581
Other Operating Revenue	\$4,865,273,391	\$8,555,607,745	\$6,805,017,437	\$6,725,992,415
Total Operating Revenue	\$116,274,445,812	\$120,842,427,606	\$130,362,450,773	\$137,578,103,996
Total Operating Expenses	\$112,271,891,820	\$121,064,840,384	\$127,866,721,999	\$137,479,882,198
Net Operating Revenue	\$4,002,553,992	-\$222,412,778	\$2,495,728,774	\$98,221,798
Net Nonoperating Revenue	\$5,929,145,821	\$5,409,788,398	\$6,706,232,016	\$109,107,629
Net Income (Pretax)	\$9,931,699,813	\$5,187,375,620	\$9,201,960,790	\$207,329,427

Source: “Hospital Quarterly Utilization and Financial Report - Sum of Four Quarters,” California Health and Human Services Agency, 2019 Quarter 1 - Sum of Four Quarters to 2022 Quarter 4 - Sum of Four Quarters.



## Small Subset of Hospitals Experience Very Negative Financial Performance in 2022

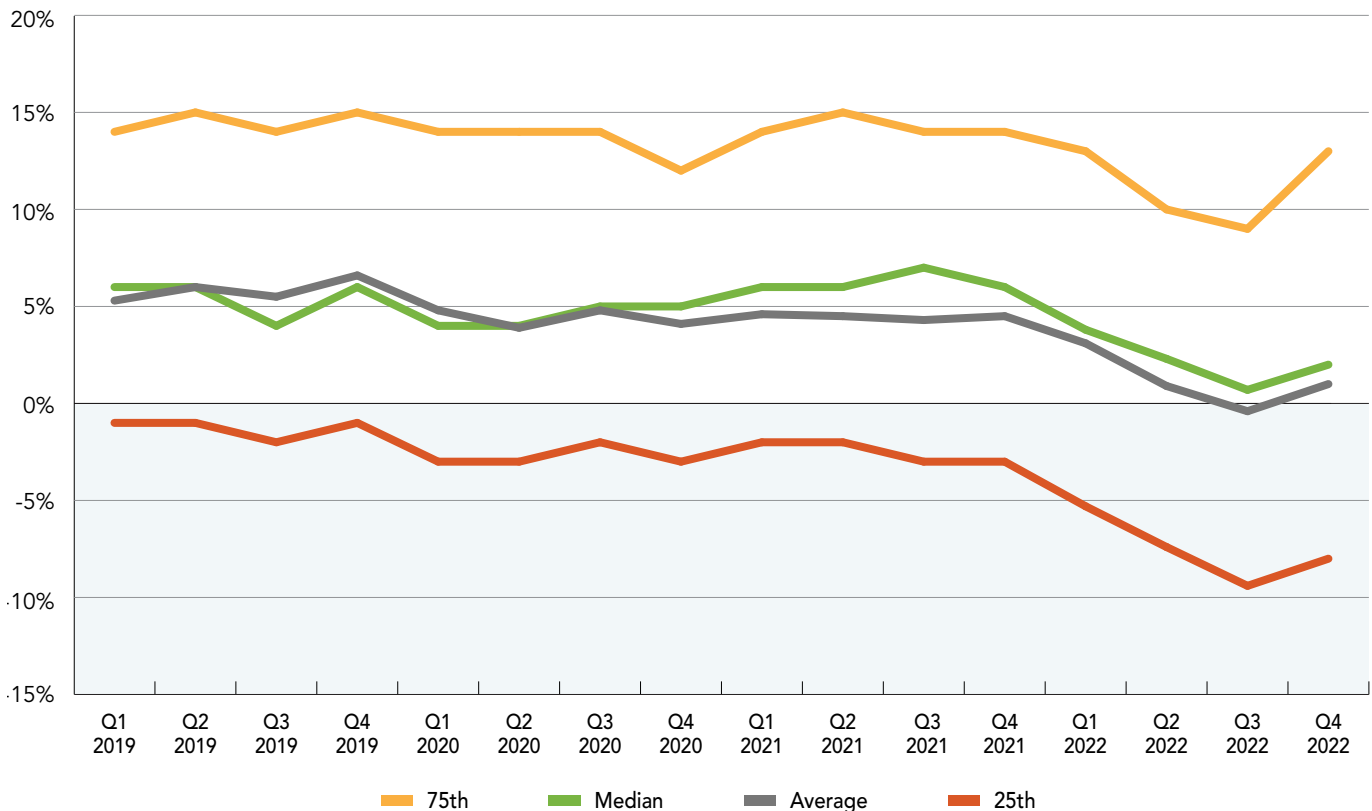
Within this broader context of aggregate but lower profitability, a small subset of facilities experienced significant losses in 2022. While both the average and median profitability for all hospitals remained positive for all but one quarter of 2020–22, those in the bottom quartile of financial performance had total margins averaging –8% in the fourth quarter of 2022 (Figure 8).

An analysis of the subset of California hospitals with the most negative (bottom quintile) margins in 2022 reveals a diverse set of facilities. These hospitals

ranged in size from 10 licensed beds to 482, with an average of 180 beds. Nearly two-thirds of the low-margin hospitals (64%) are members of multihospital systems, and 14% were designated as rural hospitals. Facilities are located in all areas of the state.

Payer mix varied within very low-margin facilities. Notably, these hospitals were no more dependent on Medi-Cal or Medicare than the average hospital. The average hospital in California has a payer mix (based on inpatient discharges) of 40% Medicare and 32% Medi-Cal. The sample of low-margin hospitals had a payer mix of 42% Medicare and 31% Medi-Cal. Nearly 20% of the lowest margin hospitals had a private payer mix of 50% or more.

Figure 8. Total Revenue Margin in California Hospitals, 2019–22



Source: "Hospital Quarterly Utilization and Financial Report - Sum of Four Quarters," California Health and Human Services Agency, 2019 Quarter 1 - Sum of Four Quarters to 2022 Quarter 4 - Sum of Four Quarters.

## Conclusion

The financial data used in this study suggest that the state's hospital system as a whole was relatively profitable during the first two years of the pandemic, despite increases in operating expenses. Hospitals had a net income of nearly \$10 billion in 2019, the year before the pandemic, dipping to \$5 billion in 2020 and then returning to \$9 billion in 2021. Significant public subsidies and strong financial market returns helped many facilities come through the worst of the pandemic to stay in the black.

Data for 2022 show larger financial challenges for CA hospitals: total net income across the sector had fallen to \$207 million. The decline in profitability appears largely driven by increases in operating expenses that were triggered during the pandemic (including staffing and supply costs) combined with substantial reductions in nonoperating revenue sources. Quarterly data suggest that underlying costs began to stabilize in 2021 and 2022, and both operating and nonoperating revenue have begun to increase, if only modestly, in the fourth quarter of last year.

While these aggregate numbers show a significant decline in profitability across the entire sector — the

experience of any one hospital can be better or worse than the average. For example, a handful of general acute care hospitals in California reported bringing in enough revenue to cover just half of their operating costs in 2022. Losses of this magnitude are clearly unsustainable, particularly when experienced by facilities that are not part of large systems or those without the financial reserves to weather temporary decreases in income or increases in expenses.

While many of California's hospitals appear to have come through the most acute phases of the COVID-19 pandemic on sound financial footing, significant and fundamental challenges persist. As policymakers seek to ensure access to care in all communities, they must confront the long-term sustainability of the underlying business model for hospital-based services in various parts of the state, the need for investments in alternative, non-hospital-based services in different communities, and, given the centrality of human resources and personnel in underlying expenses structures, expanding the educational pipeline of nurses and other key inputs to address the long-term consequences of California's health care workforce shortage.

## About the Authors

Glenn Melnick, PhD, is Blue Cross of California Chair in Health Care Finance and professor of public policy at the [University of Southern California](#). Susan Maerki, MHA, MAE, is an independent health consultant and former director and health policy specialist at PwC.

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## About the Foundation

The [California Health Care Foundation](#) (CHCF) is an independent, nonprofit philanthropy that works to improve the health care system so that all Californians have the care they need. We focus especially on making sure the system works for Californians with low incomes and for communities who have traditionally faced the greatest barriers to care. We partner with leaders across the health care safety net to ensure they have the data and resources to make care more just and to drive improvement in a complex system. CHCF informs policymakers and industry leaders, invests in ideas and innovations, and connects with change-makers to create a more responsive, patient-centered health care system.

## Endnotes

1. Glenn Melnick and Susan Maerki, *The Financial Impact of COVID-19 on California Hospitals: January 2020 Through June 2021*, California Health Care Foundation, August 2021.
2. *Hospital Services at Risk Throughout California*, Kaufman Hall, April 2023.
3. Ana B. Ibarra, “[Hospital Closures, Cuts in Services Loom for Some Communities. How the State May Step In to Help](#),” *CalMatters*, April 6, 2023.
4. The major source of data is the 16 California Dept. of Health Care Access and Information (HCAI) [Sum of Four Quarters Quarterly Utilization and Financial Reports](#) starting with 1Q2019, covering the four quarters April 2018 to March 2019, through 4Q2022, covering the four quarters January 2022 to December 2022. Hospitals report quarterly data quickly after the close of each quarter and, as a result, final annual reports filed later in the year by hospitals may show different values due to time lags and other adjustments. The authors compared quarterly and annual data and found only small differences for utilization measures and larger differences for financial measures at the hospital level but substantial agreement of overall trends across all hospitals.
5. [Documentation for Hospital Quarterly Financial and Utilization Data Files](#), HCAI, last updated March 21, 2018.
6. Nancy M. Kane, “[Hospital Profits, a Misleading Measure of Financial Health](#),” *Journal of Amer. Health Policy* 1, no. 1 (July–Aug. 1991): 27–35; and Nancy M. Kane et al., “[Why Policymakers Should Use Audited Financial Statements to Assess Health Systems’ Financial Health](#),” *Journal of Health Care Finance* 48, no. 1 (Summer 2021).
7. [Case Mix Index 1996–2021](#), California Health and Human Services Agency, last updated September 2022.
8. *Hospital Services at Risk*, Kaufman Hall.
9. The 2019–21 period was marked by double-digit investment returns. An S&P 500 index would have returned over 20% per year.
10. *Hospital Services at Risk*, Kaufman Hall.
11. These data represent all comparable hospitals and include all hospitals that reported in any of the quarterly periods from 2019 to 2022. There is a maximum of 368 hospitals, and therefore aggregate values differ slightly from the panel of 348 hospitals that reported in all quarters of the period.