

California Hospital Association
Financial Instability “Script”
January 2023

Background

Hospitals throughout California and the nation are facing financial challenges that are putting patient care and their communities at risk. This draft “script” is designed to help CHA-member hospitals discuss their specific challenges with lawmakers, community leaders, media, and the public.

Key Message

California’s hospitals are facing severe financial instability that threatens the care they provide and the benefits they bring to their communities.

Supporting Messages

- 2022 was the most devastating year in recent memory for hospitals’ sustainability due to skyrocketing costs, stagnant payments, the COVID-19 pandemic, workforce shortages, and a behavioral health crisis.
- Conditions are unlikely to materially improve in 2023.
- Hospitals can’t increase revenue to match expense inflation because they rely heavily on Medicare and Medi-Cal payments — which are administratively set.
- Medicaid payments to hospitals have not been increased in a decade.
- Historically, Medicare and Medi-Cal payments have failed to cover the cost of care. This problem is growing worse in the current environment.
- Hospitals can’t support their mission of caring for their communities if they are not financially stable. Continued losses put hospitals at risk of having to reduce services — or, in severe cases, close facilities. This would decrease access to care, jobs, and have a negative impact on the local economy and public health efforts.

Telling Your Hospital’s Story

Policymakers need to hear from their constituents about what’s happening in their communities and their local hospital. To illustrate the toll this financial crisis is taking on your facility, patients, and community, consider sharing:

- Your hospital’s financial sustainability data. Examples may include:
 - Our operating losses for fiscal year (FY) 2022 were \$[x] compared to \$[y] in FY 2019
 - Our operating margin for FY 2022 was [x]% compared to [y]% in FY 2019
 - We have [x] days cash on hand as of [date], down from [y] at the end of FY 2019
 - Since the beginning of 2020, expenses have increased:
 - [x] % for payroll
 - [x] % for supplies
 - [x] % for drugs
 - Inadequate Medicare and Medi-Cal payments:

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- We lose \$[x] per year providing care to Medicare beneficiaries. To put that in context, Medicare only pays us [x] for every dollar it costs to care for a Medicare patient.
- We lose \$[x] per year providing care to Medi-Cal beneficiaries. To put that in context, Medi-Cal only pays us [x] for every dollar it costs to care for a Medi-Cal patient.

- Specific examples of how the financial strain may directly affect patients — longer emergency department waits, delays scheduling outpatient and diagnostic services, etc.
- Specific examples of units, services, community programs, etc. that have been reduced or eliminated due to financial strain and how it has affected patients.
- Specific examples of other ways financial strain has affected your hospital and community such as layoffs, cancellation of planned investments, etc.
- How the current financial outlook has changed your hospital’s plans for the next five to 10 years in terms of plans for new services, facilities projects, expansions, etc.

Request of State Legislators

The state has not increased base Medi-Cal rates paid to hospitals for over a decade and even prior to that, Medi-Cal base reimbursement did not cover the cost of providing care to this population. Furthermore, hospitals’ payer mix has seen steady increases toward Medi-Cal as enrollment has grown from 21% to nearly 40% of the population.

CHA is requesting a one-time state budget relief package of \$1.5 billion in 2023 to keep hospitals open and services available, followed by structural rate increases to prevent future crises.

Supporting Statewide Data¹

- Statewide, hospital expenses are skyrocketing:
 - Median expenses per discharge for California hospitals rose 15% in 2021, outpacing the 11% national average.
 - These increases were largely driven by higher labor costs (+16%) and supply chain shortages impacting pharmaceuticals (+41%) and medical supplies (+19%).¹
- Medicare and Medi-Cal payments are not keeping pace with the cost of providing care:
 - California hospitals lose 25 cents on the dollar for Medicare patients, who make up 37% of their patient population.
 - Hospitals lose 26 cents on the dollar with reimbursements for Medi-Cal patients, who make up another 36% of their patient population.
- Hospitals are at risk:
 - More than half of California’s hospitals are operating with negative margins.

¹ Kaufman Hall. [“Analysis: California Hospitals Endured Significant Financial Strain in 2021.”](#) 4/2022

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Additional Resources

- [Analysis: California Hospitals Endured Significant Financial Strain in 2021](#)
- [Infographic: Critical Hospital Services Face Uncertain Future](#)