

Health Systems & Hospitals

○	Situation Analysis Market Score
+	Market dynamics are favorable for health systems and hospitals. Look for increased patient volumes with improved profitability for this segment.
○	Market dynamics are neutral for health systems and hospitals. Look for steady patient volumes and stable earnings.
-	Market dynamics are unfavorable for health systems and hospitals. Look for decreased patient volumes and declining profitability for this segment.

Although a new data system is reportedly improving hospitals' leverage with payors, the lack of consolidation in the health system market puts hospitals at a disadvantage during reimbursement negotiations. Hospitals are also negatively impacted by new legal restrictions on billing patients for medical expenses that insurers refuse to pay. On the other hand, demand for medical services and bed space is driving construction projects despite the ailing economy, keeping this sector's outlook neutral.

Watch for partnerships to continue to develop between physicians, hospitals and other healthcare companies on joint venture projects aimed at meeting patient demand for medical services. Also look for financially distressed hospitals in the local area to possibly close or be sold, leading to more consolidation in this sector. The local health system market is a broad mix of hospitals, which include rural, teaching, for-profit, nonprofit and publicly owned facilities.

The two-county Riverside market has 35 acute-care hospitals, excluding those operated by the federal government, with an estimated 361,413 inpatient discharges annually and 6,025 total acute-care beds, according to the most recent federal Medicare hospital statistics from Billian's HealthDATA. The average daily occupancy rate is 70 percent and the average length of stay is 3.1 days. Medicare and Medicaid account for an average 19 percent and 22 percent, respectively, of the area's acute-care discharges.

The local hospitals combined for a net income of \$218.8 million and net

patient revenue of \$4.05 billion in the most recent figures from Billian's HealthDATA, based on Centers for Medicare & Medicaid Services hospital reporting. This data does not include finances for two local hospitals owned by Kaiser Permanente, which releases its financial information on a consolidated basis for its hospitals and health plan. Fifteen hospitals in the market posted a net loss, but several of the area's largest hospitals posted a net income of more than \$30 million. Forty percent of the state's hospitals are losing money and more than 70 have closed within the last 10 years, according to the Hospital Association of Southern California.

The number of hospital beds per capita in Riverside County, particularly the southern part of the county, is far lower than the number statewide, according to a report from the county Community Health Agency. Even at existing hospitals, many of the beds are not in private rooms or are located in buildings that do not comply with seismic safety standards, according to a local insider.

State law requires hospital buildings most at risk of earthquake damage to be upgraded or replaced by 2013; extensions can be granted through 2015, and safety-net providers having financial difficulty can wait until 2020. Hospital buildings that are considered safer but still vulnerable to earthquakes have a deadline of 2030. Some hospitals are receiving favorable reassessments of their vulnerability to earthquakes using the Hazards U.S. Multi-Hazard tool, or HAZUS, which evaluates a hospital's structural integrity, soil content and distance from faults. Despite these reassessments, expenses involved with the mandate to upgrade hospitals is staggering, and with limited credit available at favorable interest rates, watch for state lawmakers to push back the deadline for seismic compliance.

Local hospitals are turning to Professional Data Services, a subsidiary of the Hospital Association of Southern California, to improve contract negotiations with health plans. PDS is a Web-based product that uses data on paid claims for every inpatient and outpatient visit to allow hospitals to compare contracts and assess their position relative to other facilities, according to the HASC, which says 16 health systems and more than 48 hospitals are participating. Two recent additions are Valley Health's two hospitals in Riverside County: Hemet Valley Medical Center and Menifee Valley Medical Center.

Among the health systems that could be on the lookout to acquire struggling hospitals is Prime Healthcare Services, a for-profit health system that has purchased several financially troubled hospitals in Southern California in recent years. However, recent changes in state regulations and legal rulings appear to undercut Prime Healthcare's business strategy of canceling contracts with health plans.

Prime Healthcare, perhaps more than any other health system, is impacted by a January 2009 ruling by the state Supreme Court that is expected to

increase hospitals' uncompensated-care costs and prevent business practices such as Prime's. The court barred providers from billing emergency room patients for the balance of medical bills not paid by insurers. Providers point out that dozens of emergency rooms have closed over the last two decades in California, and this ruling could augment the problem. Prime argues its actions have prevented the closure of more ERs.

A number of hospitals in the Riverside market have implemented at least some form of an electronic medical record system, although few have established a full-blown EMR that includes features such as computer physician order entry. Kaiser Permanente, the area's largest health system in terms of inpatient discharges, is ahead of the game with its KP HealthConnect system.

According to healthcare officials and an Inland economist cited by *The Press Enterprise*, there are several reasons why the local market has not kept pace with the demand for medical services as the population grows. These include:

- » Resources being directed to upgrading and replacing old buildings
- » A restrictive local approval process to construct medical facilities
- » Growing labor and construction costs
- » Cuts in government reimbursement rates for healthcare services

A large percentage of Inland Empire residents go outside the local area to Los Angeles and Orange County for care, according to local insiders. One factor driving this trend is the influx of people who moved to the Inland area from other parts of Southern California in recent years. Many of these new residents continue to seek care from providers near their previous homes.

To help relieve the area's shortage of physicians, hospitals in the Inland area are entertaining the use of telehealth to help provide services from psychiatrists and neurologists. However, payors do not want to reimburse such services at inpatient rates but rather outpatient rates.

One of the most underserved areas in the region is the Interstate 215 corridor, which has seen heavy development in recent years. A private company, March Healthcare Development, has proposed the creation of a medical district on about 200 acres of land formerly used by March Air Reserve Base. Healthcare companies would purchase pieces of the complex and construct medical facilities.

Plans call for the first stage of development to include urgent care and senior services. The next phase could entail medical offices and ambulatory surgery, followed eventually by a hospital. According to March Healthcare Development, about half of Southwest Riverside County residents seek

healthcare services outside the local area, and the proposed medical campus would help address the region's healthcare needs.

Other major construction projects underway or proposed for the Inland area include the following:

- » **A** \$700 million replacement for Kaiser Permanente's Fontana Medical Center
- » **A** \$211 million hospital in Murrieta that is a joint venture between Loma Linda University Medical Center, local physicians and Franklin, Tenn.-based Surgical Development Partners
- » **A** \$400 million expansion of HCA's Riverside Community Hospital
- » **A** \$266 million Kaiser Permanente hospital in Ontario
- » **A** 340-bed Southwest Healthcare System hospital in Temecula

New legislation signed by Gov. Arnold Schwarzenegger in 2008 requires hospitals to report infection rates, which will be posted online beginning in 2011. The legislation also directs the state to oversee hospital efforts to institute infection control practices. The intent is to improve patient care and reduce healthcare costs. A number of Inland area hospitals have already undertaken initiatives to track infections and prevent them from spreading.