



2020 West El Camino Avenue, Suite 800  
Sacramento, CA 95833  
hcai.ca.gov



## **FINDING OF EMERGENCY**

CALIFORNIA CODE OF REGULATIONS  
Title 22, Division 7, Chapter 10: Health Facility Data  
Section 97018. Accounting and Reporting Manual for California Hospitals

Emergency Regulations Regarding Distressed Hospital Financial Monitoring

### **SUBJECT MATTER OF PROPOSED REGULATIONS**

Implementation of Assembly Bill (AB) 112 (Chapter 6, Statutes of 2023) which amended Section 128740 to require hospitals report balance sheet data and authorized the Department of Health Care Access and Information (HCAI) to make additions or deletions of data on the quarterly financial and utilization report on an emergency basis to support the purposes of the legislation.

### **FINDING OF EMERGENCY**

When one community hospital suddenly closed, and several other hospitals were rumored to be facing financial distress, policymakers and stakeholders turned to HCAI's hospital financial public disclosure reports to analyze the financial standing of California's hospitals. Unfortunately, the most recent data was eighteen months old. This is because hospitals only submit balance sheet data once a year on their Hospital Annual Financial Disclosure Report, and not on a quarterly basis, as they do much of their income statement data on the Quarterly Financial and Utilization Report (QFUR). While income statement data shows how profitable or unprofitable a hospital is, it is the balance sheet that is crucial to assess the current financial position of the hospital. This lack of information made it difficult for policymakers to determine which hospitals were actually in distress and might benefit from assistance. For this reason, AB 112, primarily an emergency loan program to distressed hospitals, also included language to add quarterly balance sheet and other data to the QFUR, and stated HCAI's authority to pass emergency regulations to implement the provisions.

The closure of a local hospital can have significant consequences for communities, the most immediate being limited access to healthcare. Residents may face challenges in accessing essential medical services, leading to delayed or inadequate healthcare, especially in emergency situations where they face longer travel times to reach the nearest medical facility, potentially jeopardizing critical and time-sensitive treatments. There are also public health impacts to the community, such as disease prevention and

health promotion programs being compromised, affecting community well-being, and routine healthcare services, such as vaccinations and preventive screenings not being conducted, leading to increased health risks within the community. Hospital closures also contribute to job losses, affecting both healthcare professionals and support staff. The local economy may suffer, as healthcare is often a significant employer and an essential component of community infrastructure.

Beyond the direct community, closure of a local hospital also increases strain on nearby communities. Nearby hospitals and clinics may experience an influx of patients, potentially leading to longer wait times and diminished quality of care. Overcrowding in neighboring facilities could strain resources and impact the overall effectiveness of the healthcare system. This is especially true of emergency services, since people from the community whose hospital closed are more likely to delay care resulting in their initial visit to be to an emergency department of a nearby community hospital.

Collecting additional balance sheet financial data from hospitals enables timely identification of financial challenges that hospitals may face, allowing for proactive assistance to prevent closures. This data serves as a vital tool in assessing the overall health of healthcare institutions and helps policymakers and stakeholders make informed decisions.

Monitoring financial data provides insights into the hospitals' operational efficiency, resource allocation, and potential areas of improvement. By identifying financial strains early on, intervention strategies can be implemented, such as targeted financial assistance, restructuring, or collaborative initiatives with other healthcare providers, to ensure the sustained provision of essential medical services.

Additionally, analyzing financial metrics can assist in creating tailored support programs, addressing specific financial vulnerabilities faced by different hospitals. This proactive approach not only safeguards the continuity of healthcare services but also contributes to the overall stability and resilience of the healthcare system, ultimately benefiting the communities relying on these institutions.

In summary, the closure of a local hospital can have far-reaching consequences, affecting not only healthcare accessibility but also the economic, social, and overall well-being of the community. Proactive measures are crucial to mitigate these impacts and ensure the continued provision of essential healthcare services. Collecting quarterly balance sheet financial data from hospitals allows policymakers and stakeholders to monitor their financial solvency, enabling timely assistance and preventing closures that could adversely impact public health and well-being. For these reasons, The Department of Health Care Access and Information (HCAI) finds that immediate action to modify section 97018 to incorporate by reference an update to the Accounting and Reporting Manual for California Hospitals, Second Edition (Manual) is necessary to avoid serious harm to the public peace, health and safety, or general welfare.

## **AUTHORITY AND REFERENCE**

Authority: California Health and Safety Code, Section 128740, and 128810, California Government Code, Section 11152.

Reference: California Health and Safety Code, Sections 128680, 128730, 128735, 128740, and 128760.

## **INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW**

### **A. Summary of Existing Law**

Pursuant to the Health Data and Advisory Council Consolidation Act (the Data Act), Health and Safety Code (HSC) §128675 - 128810, HCAI has established uniform systems of accounting for all California health facilities licensed pursuant to Chapter 2 of Division 2 of the Health and Safety Code.

Pursuant to Health and Safety Code §128740, hospitals are required to file quarterly financial and utilization data with HCAI. The data is submitted in a report known as the Hospital Quarterly Financial and Utilization Report.

HCAI's *Accounting and Reporting Manual for California Hospitals*, Second Edition (Manual) is incorporated by reference in current regulation. The Manual establishes the accounting systems hospitals must use and details methods for preparing and filing required reports. Section 8000 of the Manual details the reporting requirements and report forms for the quarterly financial and utilization report.

Assembly Bill (AB) 112 (Chapter 6, Statutes of 2023) amended Section 128740 to require hospitals report balance sheet data and authorized HCAI to make additions or deletions of data on the quarterly financial and utilization report to support the purposes of the legislation.

### **B. Policy Statement Overview/Benefits of the Proposed Regulations**

While the annual financial disclosure report includes balance sheet data, the quarterly financial and utilization report does not. Since the annual financial disclosure report may not be filed until up to seven months after the hospital's fiscal year end, the most recent balance sheet data available may be as old as nineteen months. This results in not having timely data to adequately evaluate the hospital's current financial position.

In recognition of this delay of critical information, Assembly Bill (AB) 112 (Chapter 6, Statutes of 2023) was enacted to authorize the collection of balance sheet data and additions or deletions of data on the quarterly financial and utilization report to support the purposes of the legislation. AB 112 authorized emergency regulations necessary to implement the legislation.

The proposed emergency regulations have been developed to implement the additional data required by statute to monitor hospital financial distress. In developing the proposed regulations, extensive research and analysis was done to ensure information for tracking financial positions of hospitals was included, but the amount of detail was also limited to reduce any reporting burden imposed on hospitals. In addition to implementing the requirements of AB 112, these regulations will likely provide benefits to residents of California. The ability to monitor for hospital financial distress will allow for early intervention in the event a hospital is facing financial hardship, which may prevent hospitals from reducing services to their community or closing altogether.

#### C. Documents Incorporated by Reference

The proposed rulemaking incorporates by reference the *Accounting and Reporting Manual for California Hospitals*, Second Edition, as amended December 27, 2023.

#### D. Purpose and Necessity of Each Amendment

##### §97018. Accounting and Reporting Manual for California Hospitals

HCAI proposes amendments to the *Accounting and Reporting Manual for California Hospitals*, Second Edition to instruct hospitals on how to report the new data. The purpose of the proposed changes to §97018 is to incorporate by reference the revised Manual and corresponding effective dates.

The effective date of the proposed amendments was for report periods ended March 31, 2024, and after. The Manual, as amended June 2021, remained in effect for report periods ending prior to March 31, 2024.

## AMENDMENTS TO THE ACCOUNTING AND REPORTING MANUAL FOR CALIFORNIA HOSPITALS, SECOND EDITION

### CHAPTER 8000: QUARTERLY REPORTING REQUIREMENTS

The header of the chapter is being updated to reflect a change in the name of the department from the Office of Statewide Health Planning and Development to the Department of Health Care Access and Information. This change took effect with Assembly Bill (AB) 133 (Chapter 143, Statutes of 2021).

The footer of the chapter has historically been used as an indicator of the last date the text of the page has been updated. Instead, this date is being moved to under the Section numbers, and the footer is being updated to reflect the manual amendment version date of December 27, 2023. This is necessary to distinguish the new version effective for report periods ending March 31, 2024, and after, from the previous version for report periods ending prior to March 31, 2024, while maintaining a date of the last update of the text of the Section.

GENERAL INSTRUCTIONS FOR COMPLETING QUARTERLY REPORT §8100

An exemption for certain hospitals to report balance sheet data on a group basis is being added. This is necessary to align with the same exemption provided for on the annual financial disclosure report as specified in Health and Safety Code Section 128735, Subsection (a), Paragraph (2).

DETAILED INSTRUCTIONS FOR COMPLETING QUARTERLY REPORT §8200

Item 4 instruction line numbers have been updated. This is to include the additional lines necessary to collect the additional data elements.

New Item 20 adds instructions to report Depreciation and Amortization Expense from Operations as a new data element. This is necessary to calculate the days cash on hand financial ratio for the hospital. Days cash on hand is a key ratio for assessing the hospital's ability to pay for ongoing operations.

Items 20 through 23 were renumbered as Items 21 through 24 due to the insertion of new Item 20.

Items 24 and 25 were moved to new Items 37 and 33. These data elements are balance sheet related and are more appropriately included within the rest of the balance sheet data.

Item 26 was renumbered to Item 25 due to the previous additions and relocation of data elements.

A "NOTE" was added to clarify that the balance sheet data should only include unrestricted fund balances. This is consistent with how the balance sheet is reported on the annual financial disclosure report. When assessing a hospital's financial condition, including balances that are restricted is not appropriate as the funds may not be used for ongoing operations.

New item 26 adds instructions on reporting unrestricted cash, and a reminder that negative cash balances must be reported as other current liabilities. This is necessary to calculate the days cash on hand financial ratio for the hospital. Days cash on hand is a key ratio for assessing the hospital's financial distress. Negative amounts, often due to bank overdraft or lines of credit, are more appropriately reported as liabilities.

New Item 27 adds instructions for reporting Marketable Securities. Since marketable securities can be relatively quickly converted to cash, they are included in the calculation of days cash on hand.

New Item 28 adds instructions for reporting all other Current Assets. This is necessary to total the current assets and calculate the current ratio. The current ratio is a key ratio for assessing a hospital's ability to pay upcoming debts.

New Item 29 adds instructions for reporting board designated (or appropriated) unrestricted Limited Use Cash. Unlike restricted cash, board designated cash can more easily be diverted to fund ongoing operations. This data element is necessary to calculate the days cash on hand financial ratio for the hospital.

New Item 30 adds instructions to report board designated (or appropriated) unrestricted Limited Use Investments. These investments also can be relatively quickly converted to cash and included in the calculation of days cash on hand.

New Item 31 adds instructions to report all other board designated (or appropriated) unrestricted use assets. This is necessary to calculate the total of board designated assets as a standard category of the complete balance sheet.

New Item 32 adds instructions for reporting the historical cost of Property, Plant, and Equipment (fixed assets) in accordance with Generally Accepted Accounting Principles. This is a standard category of the complete balance sheet.

New Item 33 adds instructions for reporting Accumulated Depreciation and Amortization on Property, Plant, and Equipment assets. This is necessary to calculate the change from the previous quarter, which can be used to validate the depreciation and amortization expense reported as new Item 20. This also allows for the calculation of net fixed assets.

New Item 34 adds instructions for reporting Construction in Progress. This is necessary as a standard category of the complete balance sheet.

New Item 35 adds instructions for reporting Total Investments and Other Assets. This is necessary as a standard category of the complete balance sheet.

New Item 36 adds instructions for reporting Total Intangible Assets. This is necessary as a standard category of the complete balance sheet.

New Item 37 was moved from Item 24 to be more appropriately included as a data element directly below the asset portion of the balance sheet. This is a required data element per the statute.

New Item 38 adds instructions for reporting Current Liabilities. This is necessary as a standard category of the complete balance sheet.

New Item 39 adds instructions for reporting current maturities of long-term debt. This is necessary to be able to add to the Current Liabilities when calculating the current ratio for the hospital. The current ratio is a key ratio for assessing a hospital's ability to pay upcoming debts.

New Item 40 adds instructions for reporting Total Deferred Credits. This is necessary as a standard category of the complete balance sheet.

New Item 41 adds instructions for reporting the unpaid principal for Long-Term Debt. This is necessary as a standard category of the complete balance sheet.

New Item 42 adds instruction for reporting current maturities of Long-Term Debt. This is necessary to subtract from the unpaid principal since this amount is reclassified as a current liability in Item 39.

New Item 43 adds instructions for reporting Total Equity, a key component of a standard balance sheet. While there are many equity structures, breaking down the detail of those structures as is done on the annual financial report is not necessary for the purposed of these amendments.

## REPORTING FORM

§8300

The report form has been updated to reflect a change in the name of the department from the Office of Statewide Health Planning and Development (OSHDP) to the Department of Health Care Access and Information (HCAI). This change took effect with Assembly Bill (AB) 133 (Chapter 143, Statutes of 2021).

The footer of the form has been updated from the previous date the text of the form changed to reflect the report year of 2024 for which the form will first be used as well as the amendment date of the form of December 27, 2023. This is necessary to distinguish the new version effective for report periods ending March 31, 2024 and after, from the previous version for report periods ending prior to March 31, 2024.

The “Financial Data Items” subsection header has been modified to distinguish between previous “Income Statement” data elements and new the “Balance Sheet” data elements. This is necessary to provide clarity as to which data elements are from which standard financial statements.

Additions and deletions of report data elements have been made consistent with, and for the purposes and necessity detailed in the instruction Items above.

The “Questions” section at the bottom of the form has been updated for the change in the name of the department, to update the phone number, and to include an email address. This is necessary to accommodate those who prefer to interact via email rather than by phone.

## **REASONABLE ALTERNATIVES**

In accordance with Government Code section 11346.5, subdivision (a)(13), HCAI has determined that no reasonable alternative considered by HCAI or that has otherwise been identified and brought to the attention of HCAI would be more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed action or would be more

cost-effective to affected private persons and equally effective in implementing the statutory policy or other provision of law.

### **INCONSISTENCY/INCOMPATIBILITY WITH EXISTING LAW**

As required by Government Code Section 11346.5(a)(3)(D), HCAI evaluated the language contained in the proposed regulation and determined these proposed regulations are not inconsistent with or incompatible with existing state regulations. HCAI also determined there are no comparable federal regulations or statutes.

### **MATTERS PRESCRIBED BY STATUTE APPLICABLE TO THE AGENCY OR TO ANY SPECIFIC REGULATION OR CLASS OF REGULATIONS**

None.

### **MANDATE ON LOCAL AGENCIES OR SCHOOL DISTRICTS**

HCAI has determined that this proposed regulatory action would not impose a mandate on local agencies or school districts. These regulations are applicable to public and private entities and not unique to local government.

### **ECONOMIC AND FISCAL IMPACTS**

This regulatory action will not have an adverse economic impact on any business in the State of California. This regulation applies evenly to all hospitals within California and will not impact competitiveness between in-state hospitals and out-of-state hospitals. Hospitals, by their nature, are generally location centric and are not competing with businesses outside the state, therefore the proposal will not have a statewide economic impact. Hospitals may incur a minor annual cost of approximately \$1,200 to gather the required information from their current accounting records and input them into the online reporting system.

HCAI estimates no cost or saving impacts to any state agency, local agencies, school district, or nondiscretionary cost of savings imposed on local agencies. HCAI also estimates no cost or savings in federal funding to the state.

### **TECHNICAL, THEORETICAL, AND/OR EMPIRICAL STUDY, REPORTS, OR DOCUMENTS RELIED UPON**

None.

### **STATEMENT OF CONFIRMATION OF MAILING OF FIVE-DAY EMERGENCY NOTICE**

HCAI sent notice of the proposed emergency action to every person who has filed a request for notice of regulatory action at least five working days before submitting the emergency regulations to the Office of Administrative Law in accordance with the requirements of Government Code section 11346.1(a)(2).