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INITIAL STATEMENT OF REASONS

CALIFORNIA CODE OF REGULATIONS

Title 22, Division 7, Chapter 10: Health Facility Data – Distressed Hospital Financial Monitoring

Sections 97018

I. BACKGROUND INFORMATION

Hospitals are required by law to file certain financial reports with the Department of Health Care Access and Information (HCAI). In addition to an annual financial disclosure report required by Health and Safety Code Section 128735, Health and Safety Code Section 128740 requires hospitals to file quarterly financial and utilization reports with HCAI. HCAI maintains the uniform systems of accounting required by Health and Safety Code Section 128760 in the *Accounting and Reporting Manual for California Hospitals*, Second Edition (Manual), which is incorporated by reference in Section 97018, Title 22 of the California Code of Regulations.

The underlying objective of the reporting requirement is to provide the public, the health care industry, and State policy makers accurate, uniform, and objective information regarding the revenues, expenses, assets, liabilities, equity, utilization, and capacity of California hospitals. This public information is available to officials at all levels of state and local government to formulate and evaluate health system policies and manage governmental health delivery programs. Health care consultants, employers, insurers, organized labor, and other health care purchasers may use the information to make informed decisions in today's health care market. Finally, health service providers may use the information for health facility management and strategic planning purposes.

II. THE PROBLEM TO BE ADDRESSED

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. To enact this statutory change, HCAI seeks to adopt the regulation changes as indicated below.

III. THE BENEFITS OF THIS REGULATORY ACTION

This regulatory action is to adopt regulations to collect data to monitor hospital financial distress. In addition to implementing the requirements of AB 112, these regulations will likely provide benefits to residents of California. By adopting these proposed regulations, the financial position of hospitals can be monitored on an ongoing basis. This will enable timely identification and analysis of financial challenges hospitals may face in communities across California.

IV. THE 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 is for report periods ended March 31, 2025 and after, which will use the Manual as amended July 15, 2024. Report periods ending March 31, 2024 and after use the Manual as amended December 27, 2023 and report periods ending prior to March 31, 2024 will use the Manual as amended June 28, 2021.

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 updated to reflect the Manual amendment version date of July 15, 2024. This is necessary to distinguish the new version effective for report periods ending March 31, 2025 and after, from the previous Manual version for

report periods ending prior to March 31, 2025, while also maintaining a date of the last update of the text of the Section.

GENERAL INSTRUCTIONS FOR COMPLETING QUARTERLY REPORT §8100

Item 3 is added for an exemption for certain hospitals to report balance sheet data on a group basis. 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 (e), 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.

Item 44 was renumbered from Item 27. This is necessary to so that the comments remain at the end of the report.

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 (OSHPD) 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 was updated from the previous date the text of the form changed in 2019 and is now updated to 2025 as well as the amendment date of the form of 10/19 to July 15, 2024. This is necessary to distinguish the new version effective for report periods ending March 31, 2025 and after, from the previous version for report periods ending prior to March 31, 2025.

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.

V. ECONOMIC IMPACT ANALYSIS

This regulations package is intended to implement changes to Health and Safety Code Section 128740 enacted with Assembly Bill (AB) 112 (Chapter 6, Statutes of 2023), and to achieve its purposes of collecting actionable data for monitoring the current financial position of hospitals in the State of California. The proposed changes require hospitals to submit data which they already track and submit annually to HCAI on a quarterly basis. Therefore, there are no additional costs imposed for tracking the information, but hospitals may incur minor costs to gather and input the data online as part of their quarterly financial and utilization report. This report is currently submitted by hospitals online.

HCAI estimates a hospital may incur costs for a staff accountant to gather the information and input the additional data with their current quarterly financial and utilization report. It may take up to four hours of staff time each quarter to complete this, at an estimated \$75 per hour including wages and associated payroll costs (payroll taxes and employee benefits). This would result in a cost of \$300 per quarter, and \$1,200 annually for submitting all four quarters of data.

Based on analysis of HCAI's current hospital quarterly financial report data, no hospitals meet the definition of a small business as defined in California Government Code Section 11342.610. There are 391 businesses which would be required to submit the additional data, 389 hospitals and two regional reports for Kaiser Foundation Hospitals, since the regulations will allow for their hospitals to be submitted on a combined regional report consistent with the current exemption provided for on the annual financial disclosure report as specified in Health and Safety Code Section 128735, Subsection (a), Paragraph (2). (Kaiser Foundation Hospitals are the only facilities which meet this statutory exemption definition.)

When a hospital reduces services to its community or closes, there are adverse impacts to that community, which was an impetus for the enactment of legislation to require hospitals report more timely financial data. Residents must travel farther to receive health care services or go without services. Often this may be when they are in critical condition where delays can result in adverse health outcomes. This is especially true for disadvantaged populations who may not have readily available access to transportation. There also may be impacts on the hospital these people travel to in absorbing the additional patient caseload. This can result in delays in care for members of that community as well. However, it is difficult to assign a dollar amount to these impacts as they are each unique to the community impacted.

Based on this analysis, HCAI has concluded the following:

Fiscal Impact. 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.

Small Business Impact. This regulatory action will not impact small businesses as none of the regulated hospitals meet the definition of a small business.

Housing Cost. This regulatory action will not result in any change to housing costs.

Creation or Elimination of Jobs Within the State of California. This regulatory action will not result in the creation or elimination of jobs within the State of California.

Creation of New Businesses or Elimination of Existing Businesses Within the State of California. This regulatory action will not create new businesses or eliminate existing businesses within the State of California.

Expansion of Businesses Currently doing Business Within the State of California. This regulatory action will not affect the expansion of businesses currently doing business in the State of California

Statewide Adverse Economic Impact. 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.

Benefits to the Health and Welfare of California Residents. This regulatory action is likely to benefit the health and welfare of California residents by enabling early identification and analysis of hospitals in financial distress, which may prevent hospitals from eliminating healthcare services or closing altogether. This regulatory action may also benefit the state's environment by reducing miles driven to a hospital in another community if a hospital were to eliminate services or close. This regulatory action is unlikely to benefit worker safety.

VI. TECHNICAL, THEORETICAL, OR EMPIRICAL STUDY, REPORTS, OR SIMILAR DOCUMENTS RELIED UPON

Department of Health Care Access and Information: Hospital Quarterly Financial 2023 Quarter 2 Sum of Four Quarters data set (10/16/2023 extract).

<https://data.chhs.ca.gov/dataset/hospital-quarterly-financial-utilization-report-sum-of-four-quarters/resource/b85f305a-c14e-44d4-a8d6-8fc25f7a05fa> .

VII. CONSIDERATION OF ALTERNATIVES

No reasonable alternatives have been identified by HCAI or have otherwise been identified and brought to its attention that 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 that statutory policy or other provision of law.