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## **NOTICE OF PROPOSED RULEMAKING**

### **CALIFORNIA CODE OF REGULATIONS**

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

#### **Section 97018**

The Department of Health Care Access and Information (HCAI) proposes, after considering all comments, objections, and recommendations regarding the proposed action, to adopt regulations for Distressed Hospital Financial Monitoring. This proposal modifies section 97018 to incorporate by reference an update to the *Accounting and Reporting Manual for California Hospitals*, Second Edition (Manual). Hospitals are required by law to file certain financial reports with HCAI. In addition to an annual financial disclosure report required by California Health and Safety Code (HSC) Section 128735, HSC 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 Manual, which is incorporated by reference in Section 97018.

#### **I. PUBLIC HEARING**

HCAI has not scheduled a public hearing on this proposed action. However, HCAI will hold a hearing if it receives a written request for a public hearing from any interested person, or his or her authorized representative, no later than 15 days before the close of the written comment period.

#### **II. WRITTEN PUBLIC COMMENT PERIOD AND CONTACT PERSON**

Any interested person, or his or her authorized representative, may submit written comments relevant to the proposed regulatory action. All comments must be received by HCAI no later than Noon on December 24, 2024.

Inquiries and written comments regarding the proposed action should be addressed to the primary contact person named below. Comments delivered by email are suggested. Comments may also be hand delivered or mailed.

Ty Christensen, Audit Manager

Accounting and Reporting Systems Section  
Department of Health Care Access and Information  
Tel: (916) 326-3856  
Email: [Ty.Christensen@hcai.ca.gov](mailto:Ty.Christensen@hcai.ca.gov)  
Mailing address: 2020 West El Camino Avenue, Suite 1100, Sacramento, CA 95833-1880

Inquiries and comments may also be directed to the backup contact person at the same mailing address:

Harry Dhami, Audit Supervisor  
Accounting and Reporting Systems Section  
Tel: (916) 326-3856  
Email: [Harry.Dhami@hcai.ca.gov](mailto:Harry.Dhami@hcai.ca.gov)

Comments should include the author's name, U.S. Postal Service address, and email address, if applicable, for HCAI to provide copies of any notices for proposed changes to the regulation text on which additional comments may be solicited.

### **III. AUTHORITY AND REFERENCE**

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

Reference: HSC, Sections 128680, 128730, 128735, 128740, and 128760.

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

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

Pursuant to the Health Data and Advisory Council Consolidation Act (the Data Act), 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 HSC §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 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/Specific 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.

The proposed 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 these hospital data will enable timely identification and analysis of financial challenges hospitals may face in communities across California, which may prevent hospitals from reducing services to their community or closing altogether.

#### C. Determination of 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.

#### D. Documents Incorporated by Reference

The proposed rulemaking incorporates by reference the *Accounting and Reporting Manual for California Hospitals*, Second Edition, as amended July 15, 2024.

### **V. DISCLOSURES REGARDING THE PROPOSED ACTION**

HCAI has made the following initial determinations:

A. Mandate on local agencies and school districts: None.

- B. Cost or savings to any state agency: None.
- C. Cost to any local agency or school district which must be reimbursed in accordance with Government Code Sections 17500 through 17630: None.
- D. Other nondiscretionary cost or savings imposed on local agencies: None.
- E. Cost or savings in federal funding to the state: None.
- F. Cost impact on a representative person or business: 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.
- G. Statewide adverse economic impact directly affecting business and Individuals: HCAI has made an initial determination that the regulations will not have a significant, statewide adverse economic impact directly affecting business, including the ability of California business to compete with businesses in other states.
- H. Significant effect on housing costs: None.
- I. Small business impact: This regulatory action will not impact small businesses as none of the regulated hospitals meet the definition of a small business.
- J. Business Reporting Requirement: HCAI determined it is necessary for the welfare of the people of the State of California that this regulation, which requires a report, apply to business.

## **VI. STATEMENT OF THE RESULTS OF THE ECONOMIC IMPACT ANALYSIS (EIA)**

HCAI prepared an Economic Impact Analysis in the Initial Statement of Reasons and concludes that:

- A. this regulatory action will not create jobs within the state;
- B. this regulatory action will not eliminate jobs within the state;
- C. this regulatory action will not create new businesses;
- D. this regulatory action will not eliminate existing businesses;
- E. this regulatory action will not affect the expansion of businesses currently doing business in the state; and
- F. This regulatory action is likely to benefit the health and welfare of California residents by allowing early interventions when a hospital is in financial distress.

These actions may prevent hospitals from eliminating healthcare services or closing altogether.

G. This regulatory action may benefit the state's environment by reducing miles driven to a hospital in another community if a hospital were to eliminate services or close.

H. This regulatory action will not impact workers' safety.

## **VII. REASONABLE ALTERNATIVES**

In accordance with Government Code section 11346.5, subdivision (a)(13), HCAI must determine 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.

HCAI invites interested persons to present statements or arguments with respect to alternatives to the proposed regulations during the written comment period.

## **VIII. AVAILABILITY OF EXPRESS TERMS, INITIAL STATEMENT OF REASONS, AND INFORMATION UPON WHICH PROPOSED RULEMAKING IS BASED**

HCAI will have the entire rulemaking file available for inspection and copying throughout the rulemaking process at its office at the address given for the contact persons. As of the date this notice is published in the Notice Register, the rulemaking file consists of this notice, the text of the proposed changes to the regulations including the proposed changes to the Manual incorporated by reference, the initial statement of reasons, and an economic impact analysis contained in the initial statement of reasons. Copies may be obtained by contacting the listed contact person using the contact information above.

## **IX. AVAILABILITY OF SUBSTANTIAL CHANGES TO ORIGINAL PROPOSAL**

After considering all timely and relevant comments received, HCAI may adopt the proposed regulations substantially as described in this notice. If HCAI makes modifications which are sufficiently related to the originally proposed text, it will make the modified text (with the changes clearly indicated) available to the public for at least 15 days before HCAI adopts the regulations as revised.

Please send requests for copies of the modified text to the listed contact person. The modified text will also be available on the website at <https://HCAI.ca.gov/about/laws-regulations/>. HCAI will accept written comments on the modified regulations for 15 days after the date on which they are made available.

## **X. AVAILABILITY OF FINAL STATEMENT OF REASONS**

The Final Statement of Reasons, including all the comments and responses, will be available, after its completion, through the HCAI website at <https://HCAI.ca.gov/about/laws-regulations/>. The Final Statement of Reasons will also be available for review from the designated contact person.

## **XI. AVAILABILITY OF DOCUMENTS ON THE INTERNET**

The Notice of Proposed Action, Initial Statement of Reasons, the text of the proposed regulations and documents incorporated by reference with the text marked in italics and ~~strikeout~~ can be accessed through HCAI's website at <https://HCAI.ca.gov/about/laws-regulations/>.