



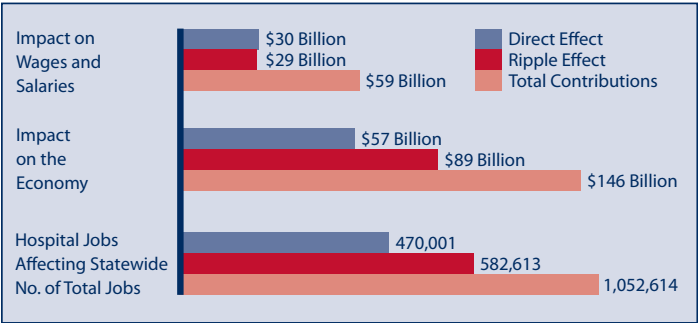
ANALYSIS OF CRITICAL ISSUES FACING CALIFORNIA HEALTH CARE LEADERS

A Report on California Hospitals and the Economy

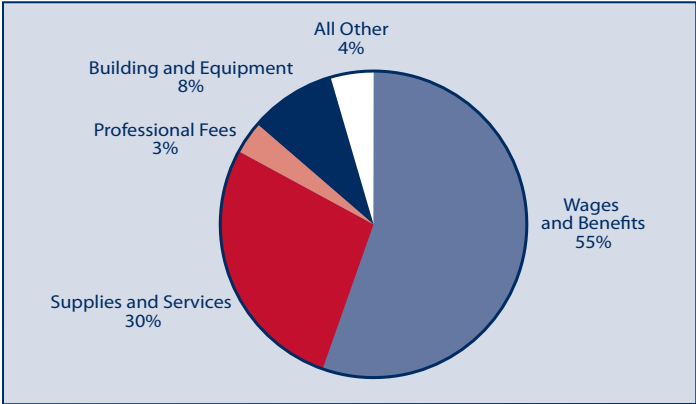
The following report is based on the results of a CHA survey of hospital chief financial officers conducted in November 2008.

During 2007, California hospitals treated more than 9 million patients in emergency rooms (ERs); provided care during more than 15 million outpatient visits; performed more than 2 million surgeries; and delivered more than 450,000 babies.¹ Millions of people rely on California hospitals. The contributions hospitals make go far beyond providing health care services. For many communities, hospitals are the cornerstone of the local economy, providing jobs and supporting businesses.

Hospitals Contribute Significantly to State Economy



Hospitals Spend \$57 Billion Annually



Hospitals employ more than 400,000 workers and spend more than \$57 billion on goods and services, including \$30 billion on employee compensation. Statewide, for each hospital job in California, almost one and a half additional jobs are created, resulting in more than 1 million jobs in the state being tied to California hospitals. Further, hospitals are responsible for more than \$146 billion in economic activity when factoring in the ripple effects of business spending.²

Hospital employees use their wages to purchase goods and services, which in turn creates income and jobs for other businesses. California hospitals often rank among the top employers in urban areas. In rural areas, hospitals are often the largest or second largest employer behind local government or school systems. The economic impact of a hospital in a rural community is often greater than the statewide average.

California hospitals are threatened. With only 1.9 hospital beds per 1,000 population,³ the state's residents are being placed at risk by the negative impact caused by inadequate Medi-Cal payments and California's faltering economy. Currently ranked 49th nationally, hospital bed availability is likely to contract further in this environment, diminishing access to health care services even more. As a result of low Medi-Cal payments, the majority of California hospitals have already made cutbacks or anticipate reducing services, including closing subacute units and psychiatric units; eliminating skilled-nursing beds and ER beds; reducing cardiology, obstetrics and other clinical services; and laying off staff or reducing pay.

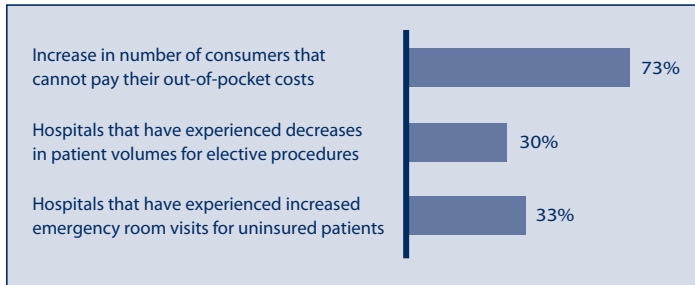
¹ *Hospital Annual Disclosure Reports*, based on Sept. 17, 2008, data extract pivot table, Office of Statewide Health Planning and Development, 2007.
² *Trendwatch*, American Hospital Association, April 2008.
³ *Hospital Statistics*, American Hospital Association, 2008.

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The impact of the economic downturn is evident. Hospitals report a 73 percent increase in consumers having difficulty paying out-of-pocket health care costs,

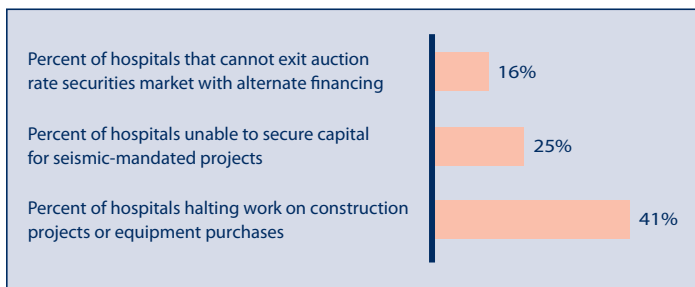
and 33 percent report an increase in ER visits for uninsured patients. With the growth in unemployment, hospitals are experiencing the effects of more Californians without job-based insurance. In fact, hospitals report a 30 percent decrease in volume for elective procedures — one of the few areas that provide hospitals an opportunity for revenue growth.

Economic Downturn Affects Hospitals & Consumers



The economy is also beginning to take its toll on the ability for hospitals to remain viable contributors to the state’s financial structure. Almost 70 percent of hospitals report that the deterioration of investment holdings has had a moderate or significant impact on their overall financial condition. Several hospitals have concerns over compliance with bond covenants dictated relative to cash and liquidity measures. In fact, 16 percent of hospitals are still struggling to exit the auction rate securities market, and are unable to find alternate financing because of the lack of credit or because their deteriorating financial condition is making it difficult to secure replacement debt.

Credit Availability Has Diminished

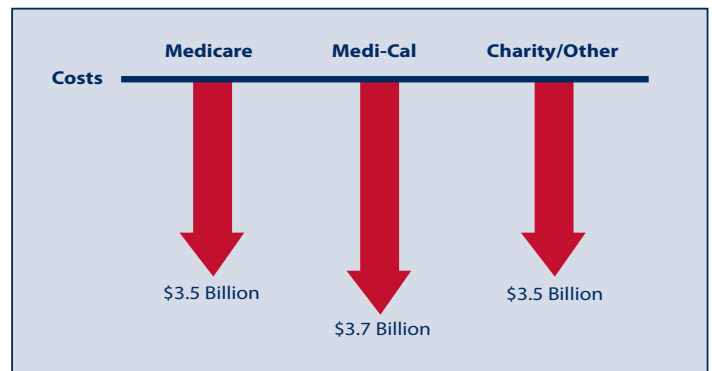


In addition, the capital markets are providing a significant hurdle for many California hospitals. More than 25 percent report the inability to access financing for construction, remodeling, equipment purchases or working capital. This has resulted in 41 percent of hospitals halting construction projects or equipment purchases. This has a significant impact on the state’s economy and jobs. This slow down now means that for hospitals required to meet seismic-upgrade mandates by 2013 and 2015, almost 38 percent report they just cannot make the deadline.

38 Percent
of hospitals required to meet 2013/2015 seismic-upgrade mandates cannot meet the deadline

California hospitals are already shouldering the financial burden of providing care to the state’s elderly and low-income. Medicare reimburses California hospitals at \$3.5 billion below the cost of providing care. California’s Medi-Cal program spends less per enrollee than any other state in the U.S. Hospital rates are among the lowest in the country and have been slashed even further in an attempt to resolve the state’s budget crisis. Medi-Cal funding has fallen short of covering costs for California hospitals by more than \$3.7 billion. Including charity care and the cost of care for the indigent population, hospitals are absorbing more than \$10 billion a year in providing care to these vulnerable populations.

Total Uncompensated Cost of Providing Care \$10.7 Billion



California cannot risk even one more hospital closing or reducing services. California residents depend on hospitals for vital health care services and for jobs. Putting the state’s hospitals at risk means putting patients at risk and, ultimately, putting California at risk.

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