

Healthcare Providers Battle 'Hostile' Environment

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The overall economic outlook for the healthcare industry remains relatively unchanged since the beginning of the year – a poor sign for an industry plagued by daunting financial challenges. More than half of the hospitals in Los Angeles County, for instance, chronically operate in the red, while others function with a slim margin.

Long Beach's three major hospital campuses have not escaped the trends present in the healthcare industry, which continues to be challenged by declining reimbursement, increasing hospital debt and a growing uninsured population.

Community Hospital of Long Beach, for instance, ended its last fiscal year on June 30, marking its fifth consecutive year performing "very, very modestly in the black," according to CEO Ray Jankowski, who notes that grants from foundations have helped the hospital purchase new equipment and improve programs, but it remains break-even with operating costs.

"We're constantly looking at the way that we do business, the way that we operate and where we spend the money and what programs we're developing and how we're serving the community," he adds. "We're bucking a headwind here. But so is everybody else."

Recent changes to government reimbursement continue to strain an already-stressed hospital system. A 10 percent cut to Medi-Cal payments to non-contracted providers went into effect July 1, and healthcare providers expect the government program to hold its checkwrites during the month of August; in other words, it appears that the state will not make any payments to many Medi-Cal providers during August and, instead, double payments in September, Jankowski says.

"It's purely a cash-flow issue on the state's part," says Barry Arbuckle, president and CEO of MemorialCare Medical Centers, of which Long Beach Memorial Medical Center and Miller Children's Hospital are part. "The state has to make the payment into the school system, . . . and so the state's cash takes a huge dip in August. They therefore [delay] the August checkwrite for Medi-Cal."

This often has a significant impact on smaller hospitals and rural facilities that live check-to-check, with payrolls dependent upon receiving a state check, Arbuckle says, noting that these facilities would have to dip into their cash reserves, use lines of credit or not make payroll.

While many hospitals will work to adjust to the 10 percent cut to Medi-Cal reimbursements, some physicians may be forced to drop service to Medi-Cal patients altogether, resulting in increased pressure on the system, Arbuckle notes.

In addition, California Gov. Arnold Schwarzenegger is looking to pare down payments even further by altering Medi-Cal eligibility and the process involved in Medi-Cal eligibility, he adds. "It will reduce the ranks of Medi-Cal, and there's only one place for people in Medi-Cal to go, and that's to be uninsured," he explains. "So we're actually going to see an increase in uninsured in California as a result of this budget situation."

Medicare reimbursements, meanwhile, are slated to increase roughly three percent – a number that is "acceptable," says St. Mary Medical Center President Chris DiCicco, but one that is far from enough. "My particular concern is [with] Medicare and Medi-Cal reductions," he says. "Our costs are climbing, and our revenue is not climbing at the same pace."

Given that Medicare is often the lion's share of inpatient business for many hospitals, changes to payments could have serious consequences, Jankowski says.

"They make other adjustments to the mechanisms by which

they pay hospitals, and oftentimes that has a negative effect, so the effective rate of increase that we get from Medicare oftentimes is much less than 3 percent, and in some years probably closer to nothing,” he says. “Since Medicare is such a big payer, that has serious implications. Since our population is aging, more and more people at some point will probably be eligible for Medicare and will be covered by Medicare.”

The good news, Arbuckle notes, is that President Bush’s proposed cuts to both Medicare and Medicaid payments – adding up to billions of dollars – have been delayed through March 31.

“Fortunately we were able to get agreement that they would put a moratorium on these cuts, basically hold everything constant,” Arbuckle says. “Effective with the beginning of the fiscal ’09 federal budget, we’re not going to have cuts also coming from the federal to compound the state.”

Still, challenges remain, and some hospitals may not weather the storm, which could result in hospital sales, Arbuckle says. Multi-state providers, for instance, may choose to leave California, while smaller, struggling hospitals may decide they can no longer stay independent.

For those remaining, however, the challenge is to consider ways that they can operate more efficiently without compromising quality. The result may be eliminating programs or services that lead to regionalization of services. Over the years, for instance, smaller community hospitals have shut down their neonatal units in the face of financial pressures.

“It’s a very hostile environment,” Jankowski says of the industry, noting that Community Hospital has been able to cautiously add services instead of eliminating them. “We’re

here to serve the community, but we must never forget that we must also act in a fiscally responsible manner so that we’re around long-term – so that we can continue to serve the community. . . . We constantly reevaluate [our operations] because the world is changing pretty quickly and we need to make sure we’re adaptable.”

Despite the current challenges, DiCicco notes that St. Mary’s future looks bright. “We feel positive about St. Mary and what’s going on, and we expect our businesses to grow,” he says. “But as your business grows, your costs grow as well, so you have to control that. We’ve had a good year last year, and I anticipate having a good year in the year to come, . . . and if everything falls into place, we should do OK.”

Long Beach Memorial Medical Center, meanwhile, is going full bore into implementation of its electronic medical records system, and Miller Children’s Hospital is moving ahead on construction of a new inpatient pavilion that is slated for completion by the end of 2009.

In the meantime, the two facilities are working to develop stronger relationships with their physicians and further their quality initiatives. “Our quality indicators have improved in virtually all areas, and with the difficulties that are in this healthcare environment today, for us to do that, we’re just very, very proud of our physicians and staff here,” says CEO Terry Belmont, who expects the industry will be faced with a continued challenge in payer mix.

“There will be pressures on us, and we will have to use every area of opportunity to appropriately keep our costs down as low as possible,” Belmont says, “while providing the services we’re expected of by our community.” ■