

Healthcare Industry On Shaky Financial Ground, And Not Just In The South Bay

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As a multibillion-dollar business that consumes more than 20 percent of the country's gross domestic product, the healthcare industry is not shielded from changes in the national economy. Hospitals in the South Bay, furthermore, are increasingly concerned about the implications of a slow U.S. economy, which could further strain an already fragile system.

Declining reimbursement and escalation in overall expenses continue to significantly impact hospital operating margins, which could take another hit if the economy worsens. For instance, the uninsured and underinsured populations could rise as businesses implement layoffs or terminate health benefits.

"People become less insured and people make less use of healthcare resources when they have times of economic trouble. They defer care [and] they don't get their prescriptions refilled," says Doug Killion, medical director of Kaiser Permanente South Bay Medical Center. "I'd say [that] our number one concern is the overall economy."

If the economy stabilizes and heads in the right direction, however, Killion expects Kaiser to be in good shape. In fact, the organization's Southern California system had an operating income of \$208 million and a roughly six percent operating margin during the first quarter of 2008.

More than half of the hospitals in Los Angeles County, meanwhile, chronically operate in the red, while many others operate on very slim margins. Little Company of Mary-Torrance (LCMT), for instance, has managed to modestly stay in the black, according to Chief Administrator Michael Hunn. "Right now we are slightly above water, and I am hopeful that we can continue to maintain that," he says.

The concern for LCMT, he says, is ensuring it can continue to provide access and services to the community. There is a clear increased demand for healthcare and emergency services, he adds, noting that the hospital has seen a 12.9 percent year-to-date increase in admissions volume.

The hospital is therefore monitoring its supply costs and facility expenses, while trying to provide enough manpower and human resources to ensure efficient operation.

"We anticipate the challenges [will] continue," he says. "Our goal is to just manage ourselves as very tightly as we can to ensure that we can provide all the care that our community is asking us to give them."

In the meantime, the state's hospitals are also faced with daunting financial challenges associated with the Hospital Facilities Seismic Safety Act (SB 1953), which initially required all California hospitals to retrofit, replace or remove structurally unsound buildings by 2013 or be closed to patient care.

A silver lining is the California Building Standards Commission's approval of the use of HAZUS, a new federally developed modeling technology, to determine the seismic risk of hospital buildings. Through the new system of evaluation, some buildings will be reclassified into a lower risk category and will have until 2030 to meet state seismic requirements.

With a master plan in place, LCMT is in many respects ahead of the game. While it is still waiting for final HAZUS reports, the campus houses a relatively new, seismically compliant tower that became operational in 2001. The 321-bed hospital boasts 177 acute beds that are already compliant, while the remaining 144 will be subject to HAZUS examination.

LCMT's counterpart in San Pedro, meanwhile, anticipates completing its master plan by the end of the year,

according to Little Company of Mary-San Pedro (LCMSP) CEO Nancy Carlson, who notes that seismic requirements will require a multimillion-dollar investment by the hospital.

Several years ago, the 556-bed hospital faced budget deficits, but it has managed to operate with a positive margin and become profitable. However, given the rising cost of construction materials and services, the hospital needs a tremendous amount of profitability to increase its cash reserves in order to comply with seismic requirements and implement capital improvements.

“Building those reserves to cover the depreciation in the cash outlay for the seismic [mandates] is requiring a lot more of us,” Carlson says. “We’ve just got to find more ways to improve the revenue stream. There’s just no question about that.”

Kaiser Permanente South Bay Medical Center is in the midst of a roughly \$500 million, multi-staged capital project that should be completed by 2015, Killion says, adding that about half of the hospital will be rebuilt, while the other half will be retrofitted.

While Kaiser is managing the requirements well, the price tag associated with SB 1953 will likely force many California hospitals to close their doors, which would result in a ripple effect throughout the system as other medical centers work to provide services to displaced patients in the face of capacity issues.

Hospital bed availability is a big concern for HealthCare Partners, a multi-specialty medical group employing more than 400 physicians in Los Angeles and north Orange counties.

“With hospitals closing or greatly reducing the number of available beds, we find ourselves in situations where locating a bed in the most appropriate hospital for our patients is an extremely challenging endeavor,” says CEO Melayne Yocum. “However, we remain committed to working with our hospital partners to understand their issues and to work strategically and collaboratively with them in identifying ways to best meet the needs of our patients and our patients’ families.”

HealthCare Partners’ large size and coordinated infrastructure allow the organization to negotiate better rates and enter into strategic industry partnerships, as well as provide services such as disease management programs and patient education programs that involve the patient as a partner. In fact, HealthCare Partners has embarked on a new HomeCare Program, catering to special needs and complex medical conditions in a patient’s home. The program aims to prevent frequent hospital admissions or emergency room visits.

In addition to a focus on patient care, the industry contin-

ues to face challenges related to new regulations and unfunded mandates that exhaust both financial and labor resources. “The state or the federal government will impose a regulation or a rule, and yet they will provide no reimbursement whatsoever to allow you to be able to implement that without you having to pull a resource from some other part of the organization,” Hunn says.

Hospitals, for instance, must comply with staffing mandates that outline nursing ratios, while state and federal quality measures require organizations to do extensive internal audits that require a significant amount of documentation and paperwork. Staffing mandates also limit a hospital’s ability to control costs related to support staff, Carlson says.

“The ability to contain costs has almost become uncontrollable for us to a large degree. I’ve been in this business 30 years, and . . . this is the first time I can ever remember feeling that I just no longer have any control over my costs,” she says. “A lot of this has to do with, of course, staffing mandates, which . . . really take out of our hands the ability to flex appropriately with our volume changes and with the needs of the patients. It’s a very fixed labor cost at this point in time.”

For now, however, Carlson notes that LCMSP is focusing its efforts on quality measures and implementing new technologies, and expects to receive accreditation as a primary stroke center by the end of the year.

“The hospital industry and Little Company of Mary-San Pedro are fully in alignment with pushing appropriate clinical outcomes, preventing deaths, preventing hospital-acquired conditions,” she says. “It is a very hard environment to be in right now, but I think a lot of creativity’s going to come out of it. So I’m hopeful, I’m optimistic that we’ll continue to be able to work through [this] with the payers and with the state and the federal government.”

Killion similarly holds an optimistic outlook for the industry. To manage its costs, Kaiser Permanente South Bay Medical Center focuses on improving efficiencies, increasing productivity and using its advanced electronic health record system to identify care gaps such as cancer screenings or immunizations. The capabilities afforded by the electronic system stress preventive care and result in long-term benefits for patients and the hospital, Killion notes.

“There are a lot of challenges in healthcare, but our country, and healthcare in general, has always faced the challenges put before it and been successful,” he says. “And I feel very confident that that’s going to be the case.” ■