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Who Owns California's Hospitals?

Legislators, health care workers, and the public have expressed concern that for-profit hospitals are taking over California's hospitals and health care organizations. One expression of that concern is Assembly Bill 3101, enacted in 1996, which requires that the state Attorney General review conversions of hospitals from nonprofit to for-profit status. Following reports that mergers of nonprofit hospitals are becoming increasingly important, Assembly Member Gil Cedillo introduced AB 254, which would regulate all hospital transactions in a fashion similar to AB 3101.

Despite this legislative activity, no one has conducted a systematic study of hospital ownership in California. The overall effects of ownership changes on costs, service, access to care, and patient outcomes are largely unknown. As a result, there is little reliable evidence to guide the Attorney General and state policymakers in deciding whether hospital purchases and mergers should be allowed.

To provide this information, Joanne Spetz, Jean Ann Seago, and Shannon Mitchell have undertaken a study of hospital ownership and its effects on health care in California. The first part of that study, *Changes in Hospital Ownership in California*, tracks ownership changes in short-term general hospitals from 1986 to 1996, describes the major hospital corporations in California, examines regional patterns of hospital ownership, and discusses the salient differences between nonprofit and for-profit hospitals.

Changes in Hospital Ownership in California

One key finding is that there has been little change over the last 15 years in the overall share of hospitals held by nonprofit and for-profit owners. Of the 296 ownership changes between 1986 and 1996, only 13 involved conversions from nonprofit to for-profit ownership. During that time, 12 hospitals switched from for-profit to nonprofit status. About 80 percent of hospital transactions in California did not involve any change in the nonprofit or for-profit status of the hospital. These figures indicate that the public debate has focused disproportionately on conversions to for-profit ownership.

At the same time, hospital markets within the state have changed dramatically. After a decade of mergers and consolidations, at least half of California's hospitals are now affiliated with multi-site hospital corporations, and six organizations—Catholic Healthcare West, Tenet/OrNda, Kaiser Foundation Hospitals, Sutter Health, Columbia/HCA, and Adventist Health—operate over one-third of the state's hospitals. This increased concentration of hospital ownership is likely to affect the cost and quality of health care and therefore has important policy implications. These implications are perhaps best understood in their regional contexts, where ownership patterns and merger activity have varied considerably.

Regional Patterns of Hospital Ownership

The most striking changes in hospital ownership occurred in California's urban areas, which accounted for 90 percent of the mergers. Sacramento now has the most highly concentrated hospital market of the state's major cities. Ten changes in hospital ownership between 1986 and 1995 led to a steady increase in the percentage of hospital beds owned by multi-hospital firms. By 1995, 82 percent of Sacramento's hospital beds were owned by the three largest firms in the area, and over 95 percent were controlled by multi-hospital corporations.

The San Diego market also is highly consolidated. Two multi-hospital corporations own over half of the hospital beds in San Diego County, and a third company operates another 11 percent of the region's hospital beds.

Most of the state's mergers occurred in the greater Los Angeles and San Francisco areas, where hospital markets became more concentrated as well. In 1994, only 14 percent of the hospital beds in the Los Angeles area were controlled by the three largest firms; by 1998, that figure rose to 33 percent. In the San Francisco area, where ownership is heavily concentrated among nonprofit organizations, the three largest corporations controlled 43 percent of the region's hospital beds in 1998, compared to 18 percent four years earlier.

California's smaller urban areas, which have had relatively few hospital transactions since 1986, vary widely in their hospital ownership patterns. For example, none of the hospitals in the Visalia-Tulare-Porterville, Yuba City, or Monterey-Salinas areas are owned by multi-hospital corporations, yet two firms control over 90 percent of Merced's hospital beds. Four nonprofit multi-hospital corporations own about half of California's rural hospitals: Adventist Health, Catholic Healthcare West, Sutter Health, and the Sisters of Saint Joseph of Orange.

Nonprofit Versus For-Profit, Independent Versus Multi-Hospital

Hospital ownership may affect hospital costs and income, access to care, perceptions of trustworthiness, and the provision of community benefits. Studies have shown that nonprofit hospitals charge lower prices, employ more staff, and pay lower administrative costs than for-profit hospitals. In exchange for preferential tax treatment, nonprofit hospitals are also required to provide benefits to the communities in which they operate. These benefits include health education classes, charity care, counseling and support groups, patient transportation, home health services, and health screenings. In contrast, for-profit hospitals price their services more aggressively, enjoy higher net incomes, and spend less on uncompensated care. There is also evidence that they avoid uninsured patients by locating in areas with high rates of insurance coverage.

The growth of multi-hospital corporations raises a different set of policy issues and research questions. The few studies of multi-hospital corporations suggest that hospital systems may benefit from increased access to capital, lower administrative costs, and the consolidation of expensive services into referral centers. These cost-cutting measures can generate unexpected tradeoffs among health care goals. For example, consolidating expensive services into referral centers reduces access for local residents but may increase the quality of care, as hospitals with high volumes of specialized procedures tend to have better patient outcomes.

Although multi-hospital organizations may enjoy economies of scale, they also can raise health care costs by forcing insurers to reimburse at higher rates, especially in highly concentrated markets. In general, multi-hospital organizations may be less responsive to local needs than their independent counterparts.

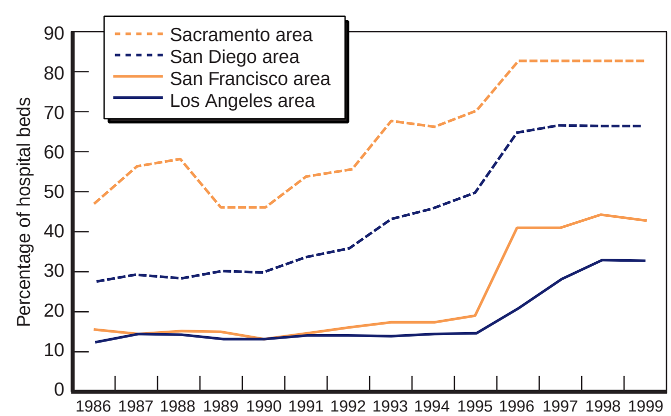
What's Next? The PPIC Study

Because more information is needed concerning the effects of ownership changes on hospital operations in California, the authors intend to examine

- Whether changes in hospital ownership affect the staffing of registered nurses, licensed vocational nurses, unlicensed aides and orderlies, salaried physicians, management and supervisory staff, and clerical and administrative staff;
- The effects of ownership changes on access to care and the provision of charity care; and
- Whether changes in hospital ownership affect the quality of medical care as measured by mortality rates, cesarean section rates, and complication rates.

By mapping California's hospital markets in detail, the authors hope to inform the public debate on hospital mergers and their consequences.

Figure 1—Percentage of Hospital Beds Controlled by the Three Largest Owners in Major Cities in California, 1986–1999



Between 1989 and 1996, the three largest hospitals in each region sharply increased their combined market shares, indicating a greater concentration of ownership in California's major urban areas.

This research brief summarizes a report by Joanne Spetz, Jean Ann Seago, and Shannon Mitchell, Changes in Hospital Ownership in California. *The report may be ordered by calling (800) 232-5343 [mainland U.S.] or (415) 291-4415 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, nonpartisan research on economic, social, and political issues affecting California.*

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