REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

LONG-TERM CARE IN CALIFORNIA: A COMPARISON OF FINANCIAL AND UTILIZATION DATA FOR INVESTOR-OWNED AND NONPROFIT FACILITIES

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Long-Term Care in California: A Comparison of Financial and Utilization Data for Investor-Owned and Nonprofit Facilities

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Office of the Auditor General
California

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Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning long-term care facilities in California. We found that 125 of the 1,177 long-term care facilities in California did not serve Medi-Cal patients. These facilities include 87 investor-owned and 38 nonprofit entities. Facility representatives cited several reasons for not serving Medi-Cal patients, including low reimbursement rates, excessive Medi-Cal requirements, and the designing and marketing of some facilities to serve only the affluent.

Respectfully submitted,

KURT R. SJOBERG
Auditor General (acting)

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Summary

Results in Brief

In 1990, California had 1,177 facilities that provided 35.2 million patient days of long-term care. We found the following conditions in these long-term care facilities:

- A total of 125 facilities did not serve Medi-Cal patients. These facilities included 87 investor-owned and 38 nonprofit entities;
- Facilities cited several reasons for not serving Medi-Cal patients, including low reimbursement rates, excessive Medi-Cal requirements, and designing and marketing facilities to serve only the affluent;
- For facilities not serving Medi-Cal patients or reporting less than 30 percent of their patient days to Medi-Cal, 153 facilities provided educational, religious, hospital, or charitable services and activities to their patients or communities. These included outreach services, subsidized medical care, housing or meals, and adult day care;
- Eighty-seven investor-owned facilities not serving Medi-Cal patients reported that they earned an aggregate net income of $1,173,000 ($.62 per patient day). Nonprofit facilities not serving Medi-Cal patients reported aggregate net losses of $7,887,000 ($12.26 per patient day); and

- Investor-owned facilities serving Medi-Cal patients paid $.15 per patient day for income taxes and $.48 per patient day for property taxes. Nonprofit facilities serving Medi-Cal patients paid $.13 per patient day for property taxes and paid no income taxes.

Background

Long-term nursing care is provided by skilled nursing and intermediate care facilities operated by investor-owned and nonprofit entities. Nonprofit entities are generally exempt from federal and state income and property taxes because of the types of educational, religious, hospital, scientific, or charitable services and activities they provide to their patients or communities.

In 1990, Medi-Cal paid for approximately 20.8 million (59.1 percent) of all patient days in long-term care facilities in the State. The Medi-Cal program is a federal and state funded program that pays for long-term care for patients who are financially unable to pay for their own care.

Comparison of Long-Term Care Facilities' Service to Medi-Cal Patients

Of the 1,177 facilities with 112,844 beds in California, 125 facilities did not serve Medi-Cal patients in 1990. A total of 38 of these 125 facilities were nonprofit, and 87 were investor-owned. The nonprofit facilities had an average occupancy rate of 84.5 percent, while the investor-owned facilities had an average occupancy rate of 79.7 percent.

Representatives from these facilities cited the following reasons for not serving Medi-Cal patients or for serving a limited number of them: the Medi-Cal reimbursement rates were too low to recover costs; their facilities' beds were reserved for residents in another part of the organization; the Medi-Cal rates would have prevented their facilities from delivering quality care; the Medi-Cal program had excessive requirements, such as those for staffing and documentation; and their facilities were designed and marketed to serve only the affluent.

Most facilities in the State serve Medi-Cal patients. In 1990, facilities serving Medi-Cal patients represented 91.3 percent of investor-owned facilities and 79.1 percent of nonprofit facilities in the State. However, the percentage of patient days paid by Medi-Cal varied from less than 2 percent to 100 percent.

Facilities Serving Few or No Medi-Cal Patients Provided Charitable Services and Activities

In response to our questionnaire mailed to facilities not serving Medi-Cal patients or reporting less than 30 percent of their patient days to Medi-Cal, 153 (78 percent) of the 195 facilities responding to the questionnaire stated that they provided various types of educational, religious, hospital, scientific, or charitable activities to their patients and their communities in addition to medical care. Examples included conducting research with other organizations, such as universities; educational activities for doctors and nurses; referral and outreach services for seniors; and subsidized housing, meals, and adult day care. However, due to the nature of these services, we could not determine their monetary value.

A total of 32 facilities not serving Medi-Cal patients and 24 facilities reporting less than 30 percent of their patient days to Medi-Cal stated that they provided subsidized medical care to patients. Representatives from these facilities estimated that they provided subsidized care to more than 760 patients and that the value of this subsidized care was approximately $17.3 million.

In addition to the services and activities mentioned above, 47 facilities not serving Medi-Cal patients had bad debts of approximately $519,000 ($.20 per patient day). Bad debt expense is often included with charity care as uncompensated care.

Comparison of Net Income or Loss, Property Taxes, and Income Taxes of Investor-Owned and Nonprofit Facilities

In reviewing the profitability of long-term care facilities not serving Medi-Cal patients, we determined that 87 investor-owned facilities not serving Medi-Cal patients reported an aggregate net income of $1,173,000 ($.62 per patient day), while 38 nonprofit facilities not serving Medi-Cal patients reported an aggregate net loss of $7,887,000 ($12.26 per patient day). Investor-owned facilities serving Medi-Cal patients reported an aggregate net loss of $4,874,000 for 1990 ($.17 per patient day). For the same period, nonprofit facilities serving Medi-Cal patients reported an aggregate net loss of $13,002,000 ($3.17 per patient day).

For 1990, long-term care facilities reported property taxes of $15,946,000 and income taxes of $4,437,000. For nonprofit facilities, the amount of property taxes totaled $683,000 ($.14 per patient day). Nonprofit facilities did not pay income taxes. The amounts nonprofit facilities paid for property and income taxes were less than the amounts paid by investor-owned facilities because state and federal laws generally exempt nonprofit entities from paying these taxes.

Agency Comments

We received written comments from both the Office of Statewide Health Planning and Development (OSHPD) and the Department of Health Services (department). The department did not have any specific comments on the scope, methodology, and findings of the report. Further, the department stated that the report contains useful information on provider participation, facility services, and financial status, and that the department will use the report for future program planning.

Although the OSHPD believes that certain comments in the report need clarification, it took no exceptions to the findings that we present in this report.

Introduction

In California, 1,177 facilities provided long-term care to patients in 1990.[1] These facilities provided different levels of care to their patients. For example, 1,125 facilities provided skilled nursing care to patients needing 24-hour care by licensed nursing personnel on an extended basis. Intermediate care facilities provided a less intensive nursing care than skilled nursing care. Skilled nursing and intermediate care facilities also provided care for mentally disordered and developmentally disabled patients with special needs.

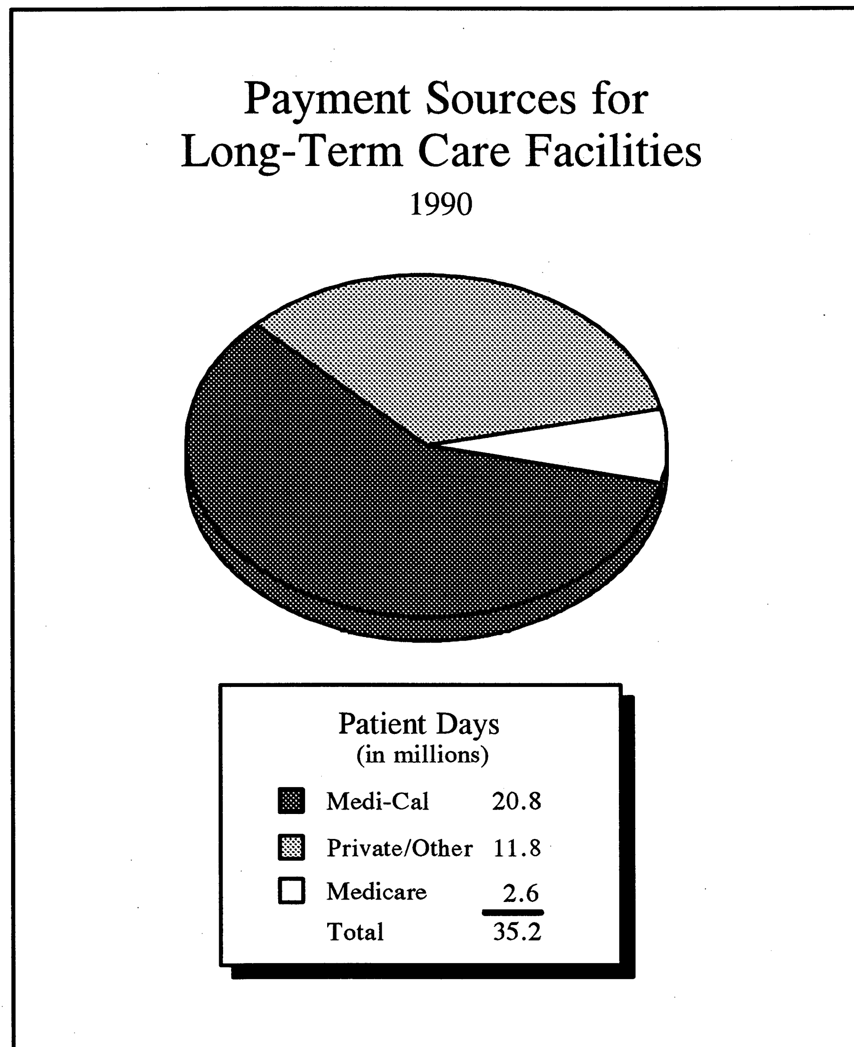
Long-term care facilities may provide more than one level of care to their patients. In addition, organizations that operate skilled nursing or intermediate care facilities may also provide residential or community care. Residential care is a nonmedical, personal care program planned to meet a resident's nutritional, social, and spiritual needs. In 1990, more than 120 long-term care facilities offered residential care to their patients.

Long-term care facilities received payment for their services from three primary sources: Medi-Cal, Medicare, and private patients who paid for their own care. The Medi-Cal program is a state-administered reimbursement program designed to pay the medical costs of persons who meet certain income criteria to be eligible for the program. The Medicare program is a federal health

[1]In this report, "1990" is defined as December 31, 1989, through December 30, 1990. Similarly, "1989" and "1988" are defined by the same time span, December 31 through December 30. A calendar year is defined as January 1 through December 31.

insurance program designed to pay the medical costs of persons aged 65 and older in skilled nursing facilities only. The remaining payments were provided by other payers, including private patients who paid for their own care. Figure 1 shows the number of days of patient care paid by Medi-Cal, Medicare, private patients, and others in 1990.

Figure 1



Based on our analysis of data from the Office of Statewide Health Planning and Development (OSHPD), the number of long-term care facilities in California decreased slightly since 1988, while the number of beds increased slightly. In 1988, the State had

1,202 facilities with 112,392 beds. By 1990, it had 1,177 facilities, a decrease of 25 (2.1 percent). During the same period, the number of beds increased from 112,392 to 112,844 (0.4 percent).

However, during the last three calendar years, the OSHPD reported that the occupancy rates for long-term care facilities have been declining. The occupancy rate is the percentage of the facilities' beds occupied during a specific reporting period. In calendar year 1988, the occupancy rate for long-term care facilities was 91.9 percent. By calendar year 1990, the occupancy rate had dropped to 87.7 percent.

Long-term care facilities are operated primarily by two types of entities: investor-owned and nonprofit entities. A facility is considered to be investor-owned when the net earnings accrue to the sole proprietor, partners, or shareholders owning the facility. Nonprofit entities include church-related and charitable corporations.[2] These entities may be exempt from federal and state income taxes and property taxes. To be exempt from income taxes, a corporation must be organized and operated for religious, charitable, scientific, or hospital purposes, and its net earnings cannot accrue to private individuals. To be exempt from property taxes, the property must be used exclusively for religious, hospital, scientific, or charitable purposes; the entity must be nonprofit; and net earnings cannot accrue for the benefit of any private shareholders or individuals.

In California, most long-term care facilities are operated by investor-owned entities. From 1988 to 1990, the number of investor-owned facilities decreased from 1,016 to 995, while the number of beds in these facilities increased from 97,816 to 98,104. However, for the same period, the number of nonprofit facilities

[2]In this report, we refer to entities organized as nonprofit when they are either church-related or secular not-for-profit entities.

decreased slightly while beds increased slightly. Table 1 presents the number of facilities and beds for investor-owned and nonprofit facilities in 1988 through 1990.

Table 1 **Facilities and Beds for Investor-Owned and Nonprofit Facilities 1988 Through 1990**

	Facilities	Beds
Investor-Owned Facilities		
1988	1,016	97,816
1989	995	98,407
1990	995	98,104
Nonprofit Facilities		
1988	186	14,576
1989	186	14,662
1990	182	14,740

Scope and Methodology

The purpose of our audit was to review statistical information on long-term care facilities in California to determine the number of facilities not serving Medi-Cal patients or limiting the number of Medi-Cal patients they served. We also determined the types of charitable services and activities these facilities provided to their patients or communities. Finally, we obtained data on the net income or loss of investor-owned and nonprofit facilities and data on the property taxes and income taxes they paid.

We used three sources of information for our review. First, we used information maintained by the State Department of Health Services (department). This department maintains statistical information on the numbers of facilities and beds the State licenses to provide long-term care in California.

Second, we obtained information from the OSHPD, which is responsible for collecting financial and utilization reports from all long-term care facilities in the State. The financial information includes accounting data from the facilities' balance sheets and income and expense statements. The OSHPD requires facilities to report their accounting information based on generally accepted

accounting principles but does not require them to submit their federal and state tax returns. The facility utilization reports include information on the number of patient days and type of ownership. After collecting the information, the OSHPD enters the information into its computerized data base. Then it conducts desk audits of this information and, if necessary, corrects errors. In addition to its own reviews, the OSHPD contracts with the department to conduct audits of selected long-term care facilities to ensure that the data is reliable. Annually, the OSHPD publishes an aggregation of the data collected from long-term care facilities.

Third, we gathered information directly from long-term care facilities. We visited seven facilities located in southern California, the Bay Area, and Sacramento to design a questionnaire. Then we mailed questionnaires to 224 facilities that reported to the OSHPD that they did not serve Medi-Cal patients or that their facilities reported less than 30 percent of their patient days to Medi-Cal. We received written responses from 195 facilities (87 percent), consisting of 124 investor-owned and 71 nonprofit facilities. When necessary, we contacted some facilities to clarify certain information they provided us.

If the facilities did not serve Medi-Cal patients, we determined the reasons they did not do so. When analyzing this data, we divided the facilities into two groups: investor-owned and nonprofit facilities. In addition, we collected information on the number of facilities that limited or restricted the number of Medi-Cal patients they served in calendar year 1990 and why they did so.

Further, we obtained information from those facilities not serving Medi-Cal patients or reporting less than 30 percent of their patient days to Medi-Cal on whether they subsidized medical care to any of their patients. If they did, we obtained information on the amounts of the subsidies; however, we did not audit the amounts of these subsidies. We also collected information from these facilities on the types of educational, religious, hospital, scientific, or charitable activities they provided to their patients or communities; however, we could not determine the monetary value of these activities. We also divided these facilities into investor-owned and nonprofit groups.

Furthermore, we collected information on bad debt expense, net income and losses, and income and property taxes for facilities statewide. We divided these facilities into four groups: investor-owned facilities serving Medi-Cal patients, investor-owned facilities not serving Medi-Cal patients, nonprofit facilities serving Medi-Cal patients, and nonprofit facilities not serving Medi-Cal patients.

As a part of our analysis, we reviewed the following legal ramifications for long-term care facilities: federal and state laws and regulations related to long-term care, the legal definitions of investor-owned and nonprofit facilities, the legal requirements for the exemption of nonprofit entities from federal and state income taxes, and the requirements for exemptions from property taxes. Further, we reviewed various legal definitions of charitable care, including information from the Office of the Attorney General, the Department of Justice; law review articles; and court decisions.

We excluded from our review the long-term care facilities operated by governmental entities, including facilities owned by cities, counties, and the State. We also excluded long-term care facilities located in acute care hospitals. When a facility had more than one owner and submitted more than one financial or utilization report, we excluded duplicate reports.

Chapter 1 Comparison of Long-Term Care Facilities' Service to Medi-Cal Patients

Chapter Summary

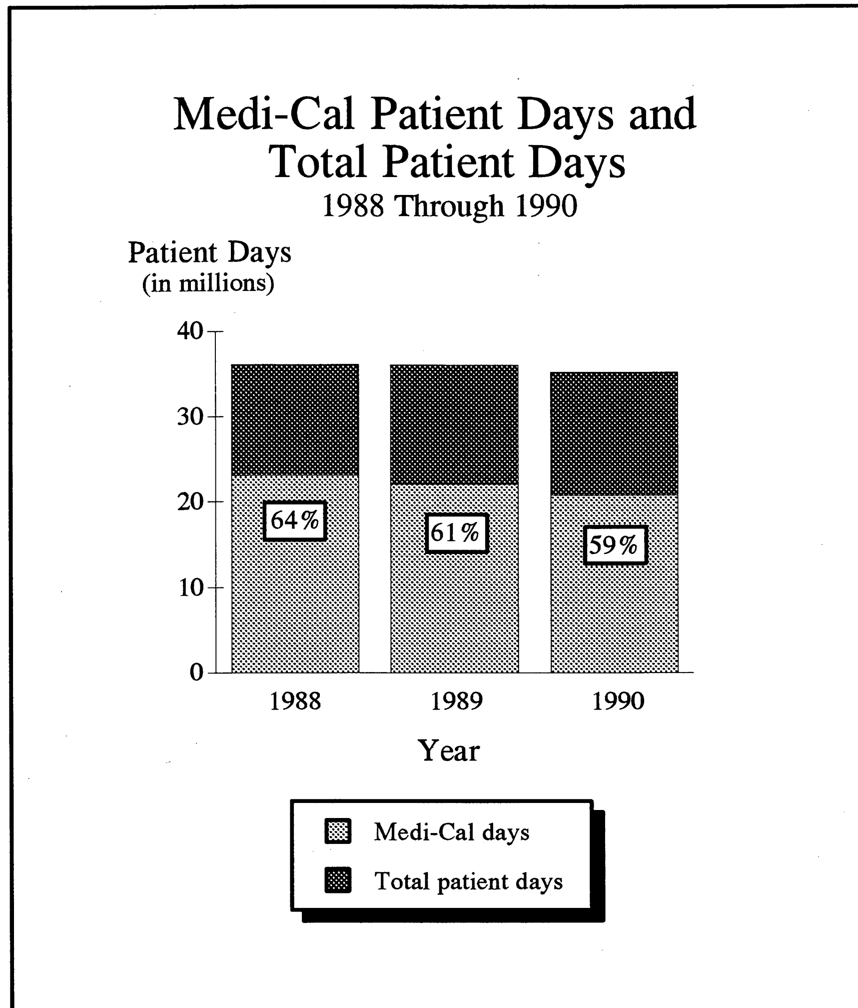
Of the 1,177 facilities with 112,844 beds in California, 125 facilities did not serve Medi-Cal patients in 1990. A total of 38 of these 125 facilities were nonprofit, and 87 were investor-owned. Based on records obtained from the Office of Statewide Health Planning and Development (OSHPD), these 125 facilities have 9,024 beds (8.0 percent) of the 112,844 beds statewide. Representatives from facilities not serving Medi-Cal patients cited the following reasons for not serving them: the reimbursement rates paid by the Medi-Cal program were too low to recover costs; the facilities' beds were reserved for existing residents in another part of the organization, and these patients generally would not have been eligible for Medi-Cal benefits; the Medi-Cal rates would have prevented the facilities from delivering quality care; the Medi-Cal program had excessive requirements, such as those for staffing and documentation; and the facilities were designed and marketed to serve only the affluent.

The Medi-Cal Program

The Medi-Cal program provides a wide array of health care services including long-term care to individuals. This program is intended to ensure the provision of necessary health care services to public assistance recipients and to other individuals who cannot afford to pay for these services.

The Department of Health Services administers the Medi-Cal program, and the state and federal governments jointly fund it. The Medi-Cal program paid for 59.1 percent of all patient days for long-term care in 1990. Since 1988, both the number of patient days and the percentage of patient days paid by Medi-Cal have decreased, as shown in Figure 2.

Figure 2



According to the OSHPD's data, the Medi-Cal program paid an average of $48.32 per patient day for long-term care in 1988, $50.91 in 1989, and $57.08 in 1990. These Medi-Cal rates are substantially below the rates that private patients paid in the same years. For example, the private pay rate in 1990 was $81.52, $24.44 higher than the Medi-Cal rate. Table 2 shows the Medi-Cal, the Medicare, and private pay rates for 1988 through 1990. The average rates paid by the Medicare program are for skilled nursing care only.

Table 2 **Average Rates Paid by the Medi-Cal Program, the Medicare Program, and Private Payers 1988 Through 1990**

	Source of Payment		
	Medi-Cal	Medicare	Private Pay/ Other
1988	$48.32	$83.76	$71.23
1989	50.91	89.59	76.13
1990	57.08	95.95	81.52

Source: Office of Statewide Health Planning and Development

Facilities Not Serving Medi-Cal Patients

The number of long-term care facilities not serving Medi-Cal patients increased from 1988 through 1990. Also during this period, the number of beds in these facilities increased. In 1988, 109 facilities with 7,277 beds did not serve Medi-Cal patients. By 1990, the number of facilities not serving Medi-Cal patients increased to 125 facilities with 9,024 beds.

In 1988, facilities not serving Medi-Cal patients represented 9.1 percent of the 1,202 facilities and 6.5 percent of the 112,392 beds statewide. By 1990, the percentage of facilities not serving Medi-Cal patients increased to 10.6 percent of the 1,177 facilities and 8.0 percent of the 112,844 beds statewide. Table 3 shows the increase in the number of facilities not serving Medi-Cal patients from 1988 through 1990.

Table 3 **Increase in Facilities Not Serving Medi-Cal Patients 1988 Through 1990**

	Facilities Not Serving Medi-Cal Patients	Percentage of Total Facilities Not Serving Medi-Cal Patients
1988	109	9.1%
1989	120	10.2
1990	125	10.6

Table 4 shows the change in the number of beds in facilities not serving Medi-Cal patients from 1988 through 1990.

Table 4 **Increase in Beds in the Facilities Not Serving Medi-Cal Patients 1988 Through 1990**

	Beds	Percentage of Total Beds Statewide
1988	7,277	6.5%
1989	8,764	7.8
1990	9,024	8.0

Types of Ownership for Facilities Not Serving Medi-Cal Patients

From 1988 through 1990, the number of investor-owned facilities not serving Medi-Cal patients totaled 72, 82, and 87, respectively. The number of beds in these facilities increased from 5,230 to 6,788.

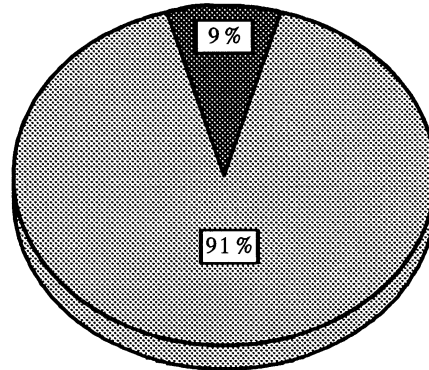
The number of nonprofit entities not serving Medi-Cal patients increased from 37 to 38 between 1988 and 1990. Church-related nonprofit entities had 9 facilities with 444 beds in 1988, 9 facilities with 371 beds in 1989, and 9 facilities with 371 beds in 1990. Other nonprofit facilities had 28 facilities with 1,603 beds, 29 facilities with 1,778 beds, and 29 facilities with 1,865 beds for the same years.

Figure 3 summarizes the number of facilities operated by investor-owned and nonprofit entities in 1990.

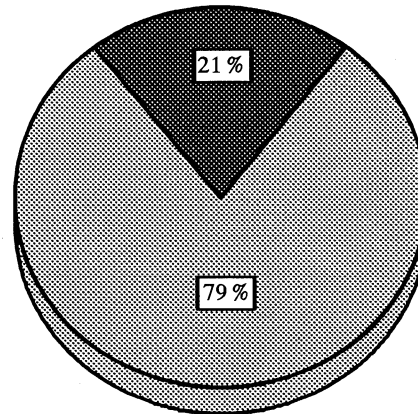
Figure 3

Percentage of Facilities Not Serving Medi-Cal Patients
1990

Investor-Owned Facilities



Nonprofit Facilities



Facilities not serving Medi-Cal patients

Facilities serving Medi-Cal patients

Table 5 summarizes the number of beds in facilities operated by investor-owned and nonprofit entities from 1988 through 1990.

Table 5 **Beds by Ownership Type Not Serving Medi-Cal Patients 1988 Through 1990**

	Nonprofit Facilities	Investor-Owned Facilities
1988	2,047	5,230
1989	2,149	6,615
1990	2,236	6,788

Facilities not serving Medi-Cal patients are usually smaller than those serving Medi-Cal patients. For example, facilities not serving Medi-Cal patients had an average of 72 beds in 1990. The average size of facilities serving Medi-Cal patients for the same period was 99 beds, 37.5 percent larger. In 1990, all facilities statewide had an average of 96 beds per facility, 33.3 percent larger than facilities not serving Medi-Cal patients.

Some entities owning long-term care facilities not serving Medi-Cal patients also owned facilities serving Medi-Cal patients. For example, in calendar year 1990, one nonprofit entity owned four facilities in the State. One of these facilities, which had 41 beds, did not serve Medi-Cal patients; but the other three facilities, which had a total of 293 beds, did.

Reasons Cited by Facilities for Not Serving Medi-Cal Patients

Representatives from long-term care facilities that responded to our questionnaire cited many reasons for not serving Medi-Cal patients. Approximately 64 percent of the facilities not serving Medi-Cal patients cited problems with the Medi-Cal program. The most frequently cited reason was that the Medi-Cal reimbursement rates were too low to recover costs. The second most frequently

cited reason was that the Medi-Cal reimbursement rate would have prevented the facilities from delivering quality care. As discussed previously, the average rate paid for Medi-Cal was $57.08 per patient day in 1990. However, according to the OSHPD, the average health care costs reported for investor-owned facilities was $68.53 per patient day. Nonprofit facilities reported average health care cost of $83.61 per patient day.

Facility representatives also stated that the Medi-Cal program had excessive requirements, such as those for staffing and documentation. Further, they said that the Medi-Cal program was slow in reimbursing facilities for Medi-Cal services provided to patients.

Another reason cited by facility representatives for not serving Medi-Cal patients was that the beds in their long-term care facilities were reserved for existing residents in another part of the organization, such as a residential care facility. The representatives stated that such residents would generally not have been eligible for Medi-Cal benefits. Other representatives stated that their facilities were designed and marketed to serve only the wealthy. In addition, ten representatives stated that their corporate charter, bylaws, or philosophy prevented the acceptance of governmental assistance such as Medi-Cal.

Table 6 summarizes the reasons cited by facility representatives for not serving Medi-Cal patients. The 95 facilities consisted of 61 investor-owned and 34 nonprofit facilities. We asked the facilities to provide the primary reasons they did not serve Medi-Cal patients. Generally, they provided more than one reason. Two investor-owned and six nonprofit facilities did not provide any reason.

Table 6 Reasons Cited by Facilities for Not Serving Medi-Cal Patients

Reasons Cited	Investor-Owned Facilities	Nonprofit Facilities	Total Facilities Responding
Medi-Cal reimbursement rates were too low.	48	8	56
Medi-Cal reimbursement rates would have prevented the facilities from delivering quality care.	43	9	52
Medi-Cal program had excessive requirements, such as those for staffing and documentation.	13	3	16
Medi-Cal program was slow in reimbursing facilities for services provided.	16	1	17
Facilities' beds were reserved for existing residents in another portion of the organization, such as residential care. Generally, these residents would not have been eligible for Medi-Cal benefits.	5	18	23
Facilities were designed and marketed to serve only the affluent.	11	1	12
Corporate charter, bylaws, or philosophy prevented the acceptance of governmental assistance, such as Medi-Cal benefits.	3	7	10
Other reasons cited included a waiting list for private-pay patients, and operating permits from governmental agencies that do not allow the admittance of nonresidents.	11	15	26
No reason cited.	6	2	8

Counties With Facilities Not Serving Medi-Cal Patients

To determine which counties have long-term care facilities not serving Medi-Cal patients, we sorted the data by county. We found that 22 counties in the State had 125 facilities with 9,024 beds not serving Medi-Cal patients in 1990. These facilities represented 12.5 percent of all facilities and 9.4 percent of all beds in these 22 counties.

Eight counties had more than 15 percent of their facilities not serving Medi-Cal patients. San Mateo County had the highest percentage of facilities (45.8 percent) and beds (31.1 percent) not serving Medi-Cal patients. Marin County had the next highest percentage of facilities (33.3 percent) not serving Medi-Cal patients. Figure 4 is a map of the State showing the counties with a high percentage of facilities not serving Medi-Cal patients. Table 7 shows the counties with facilities not serving Medi-Cal patients in 1990 and the number of beds in these facilities.

Counties in Which More Than 15 Percent of the Facilities Did Not Serve Medi-Cal Patients

Figure 4

Table 7 Counties With Facilities Not Serving Medi-Cal Patients and the Number of Beds in These Facilities 1990

County	Facilities	Percentage of Facilities in County	Beds	Percentage of Beds in County
Alameda	11	13.8%	748	12.4%
Butte	1	7.7	99	9.1
Contra Costa	9	27.3	602	21.2
Fresno	1	2.9	79	2.5
Humboldt	1	16.7	85	15.8
Los Angeles	29	7.7	1,996	5.2
Marin	5	33.3	219	18.7
Merced	1	12.5	96	15.3
Monterey	4	28.6	147	15.2
Orange	13	19.1	1,196	14.8
Riverside	6	13.6	805	20.3
Sacramento	3	7.7	345	8.8
San Diego	11	13.8	848	10.2
San Francisco	5	27.8	176	12.6
San Joaquin	1	4.0	75	2.9
San Luis Obispo	1	11.1	42	4.6
San Mateo	11	45.8	690	31.1
Santa Barbara	2	15.4	108	9.8
Santa Clara	5	9.4	382	7.4
Santa Cruz	1	8.3	34	3.1
Sonoma	2	10.0	82	5.1
Ventura	2	13.3	170	13.8
Total	**125**	**12.5%**	**9,024**	**9.4%**

Occupancy Rates in Counties: On average, when sorted by county, facilities serving Medi-Cal patients had higher occupancy rates than facilities not serving Medi-Cal patients. In 1990, the average occupancy rate for the facilities not serving Medi-Cal patients was 84.5 percent for nonprofit facilities and 79.7 percent for investor-owned facilities. In comparison, the average occupancy rate for facilities serving Medi-Cal patients was 91.0 percent for nonprofit facilities and 90.4 percent for investor-owned facilities. The occupancy rate represents the percentage of beds occupied by patients during a specific period. Table 8 compares the occupancy rates by county for facilities serving Medi-Cal patients to facilities not serving Medi-Cal patients in 1990.

Facilities with lower occupancy rates, like those not serving Medi-Cal patients, may have had beds available for patients when other facilities were near bed capacity. For example, as Table 8 shows, San Mateo County had an occupancy rate of 93.9 percent for investor-owned facilities serving Medi-Cal patients and 94.5 percent for nonprofit facilities serving Medi-Cal patients. However, in the same county, facilities not serving Medi-Cal patients had a lower occupancy rate—86.3 percent for investor-owned and 75.3 percent for nonprofit facilities.

Table 8 **County Occupancy Rates by Type of Ownership 1990**

	Facilities Not Serving Medi-Cal Patients		Facilities Serving Medi-Cal Patients	
County	Investor-Owned Facilities	Nonprofit Facilities	Investor-Owned Facilities	Nonprofit Facilities
Alameda	93.1%	92.8%	93.4%	93.6%
Contra Costa	86.6	90.3	86.4	85.1
Fresno	99.8	a	95.8	97.8
Humboldt	99.3	a	92.2	93.4
Los Angeles	82.5	86.3	89.6	88.5
Marin	91.3	88.4	90.1	89.8
Merced	98.7	a	95.9	98.1
Monterey	73.7	90.6	89.0	92.4
Orange	72.0	92.0	90.1	80.0
Riverside	69.7	a	92.0	89.0
Sacramento	45.1	90.1	98.6	94.3
San Diego	78.9	50.0	86.3	89.8
San Francisco	92.1	87.8	91.4	99.6
San Joaquin	50.1	a	89.9	98.8
San Luis Obispo	75.6	a	91.8	96.9
San Mateo	86.3	75.3	93.9	94.5
Santa Barbara	85.8	71.9	91.9	94.9
Santa Clara	94.8	91.3	89.4	93.7
Sonoma	89.8	93.9	89.8	97.2
Ventura	72.4	a	92.4	98.4
Statewide	**79.7%**	**84.5%**	**90.4%**	**91.0%**

[a] County did not have any facilities in this category.

Facilities Serving Medi-Cal Patients

Most long-term care facilities in the State serve Medi-Cal patients. Similar to the facilities not serving Medi-Cal patients, the majority of facilities serving Medi-Cal patients were investor-owned. In 1990, 908 investor-owned facilities with 91,316 beds served Medi-Cal patients. In the same year, 144 nonprofit facilities with 12,504 beds served Medi-Cal patients.

In 1990, 91.3 percent of all investor-owned facilities and 79.1 percent of all nonprofit facilities served Medi-Cal patients. In 1990, Medi-Cal paid for 61.0 percent of the patient days at investor-owned facilities and 46.5 percent of patient days at nonprofit facilities in the State. The number of facilities serving Medi-Cal patients has decreased by 36 investor-owned facilities and 5 nonprofit facilities since 1988. Table 9 shows the number of investor-owned and nonprofit facilities serving Medi-Cal patients, the number of beds, and the number of Medi-Cal patient days at those facilities from 1988 through 1990.

Table 9 Facilities Serving Medi-Cal Patients, the Number of Beds, and the Number of Medi-Cal Patient Days in These Facilities 1988 Through 1990

	Serving Medi-Cal Patients	Total Statewide	Percentage
Investor-Owned Facilities			
1988			
Facilities	944	1,016	92.9%
Beds	92,586	97,816	94.7
Patient days	20,868,982	31,370,405	66.5
1989			
Facilities	913	995	91.8
Beds	91,792	98,407	93.3
Patient days	19,810,448	31,165,505	63.6
1990			
Facilities	908	995	91.3
Beds	91,316	98,104	93.1
Patient days	18,582,411	30,447,533	61.0
Nonprofit Facilities			
1988			
Facilities	149	186	80.1
Beds	12,529	14,576	86.0
Patient days	2,247,928	4,722,780	47.6
1989			
Facilities	148	186	79.6
Beds	12,513	14,662	85.3
Patient days	2,281,082	4,851,173	47.0
1990			
Facilities	144	182	79.1
Beds	12,504	14,740	84.8
Patient days	2,205,129	4,745,388	46.5

For facilities serving Medi-Cal patients, the percentage of Medi-Cal patient days varied from less than 2 percent to 100 percent. For example, in 1990, 105 facilities with Medi-Cal patients reported that fewer than 30 percent of their patient days were paid by the Medi-Cal program. Conversely, 88 facilities had more than 90 percent of their patient days paid by the Medi-Cal program. Table 10 shows the number of facilities by the percentage of Medi-Cal patient days to total patient days for 1990.

Table 10 **Facilities Serving Medi-Cal Patients by the Percentage of Medi-Cal Patient Days 1990**

Percentage of Medi-Cal Patient Days to Total Days	Facilities	Percentage
0 to 9 percent	25	2.4%
10 to 20 percent	34	3.2
21 to 30 percent	46	4.4
31 to 40 percent	81	7.7
41 to 50 percent	93	8.8
51 to 60 percent	122	11.6
61 to 70 percent	206	19.6
71 to 80 percent	195	18.5
81 to 90 percent	162	15.4
91 to 100 percent	88	8.4
Total	**1,052**	**100.0%**

Some Facilities Limit the Number of Medi-Cal Patients

According to their responses to our questionnaires, for the facilities reporting less than 30 percent of their patient days to Medi-Cal in 1990, 31 facilities limited or restricted the number of Medi-Cal patients in their facility. These facilities reported that they had approximately 185,500 Medi-Cal patient days (22.4 percent) of their total patient days of approximately 827,600.

Representatives from these 31 facilities cited many reasons for limiting the number of Medi-Cal patients in their facilities. These reasons are similar to those cited by facilities not serving Medi-Cal patients. For example, approximately 90 percent of the facilities that limited the number of Medi-Cal patients cited problems with the Medi-Cal program such as low reimbursement rates and the inability to offer quality care at those rates.

Similarly, another reason cited by facility representatives for limiting the number of Medi-Cal patients was that the beds in their facilities were reserved for existing residents in another portion of the organization, such as a residential care facility and that these residents would generally not have been eligible for Medi-Cal benefits. Some representatives stated that their facilities were designed and marketed to serve only the wealthy.

Table 11 summarizes the reasons cited by 31 facilities (13 investor-owned and 18 nonprofit) for limiting the number of Medi-Cal patients. We asked the facilities to provide the primary reasons their facilities limited the number of Medi-Cal patients. Generally, they provided more than one reason.

Table 11 **Reasons Cited by Facilities for Limiting the Number of Medi-Cal Patients**

Reasons Cited	Investor-Owned Facilities	Nonprofit Facilities	Total Facilities Responding
Medi-Cal reimbursement rates were too low.	11	11	22
Medi-Cal reimbursement rates would have prevented the facilities from delivering quality care.	13	14	27
Medi-Cal program had excessive requirements, such as those for staffing and documentation.	3	2	5
Medi-Cal program was slow in reimbursing facilities for services provided.	5	1	6
Facilities' beds were reserved for existing residents in another portion of the organization, such as residential care. Generally, these residents would not have been eligible for Medi-Cal benefits.	0	11	11
Facilities were designed and marketed to serve only the affluent.	3	1	4
Other reasons cited.	2	2	4

Chapter 2 Facilities Serving Few or No Medi-Cal Patients Provided a Variety of Charitable Services and Activities to Their Residents and Communities

Chapter Summary

In response to our questionnaire mailed to facilities not serving Medi-Cal patients and to facilities reporting less than 30 percent of their patient days to Medi-Cal, 153 (78 percent) of the 195 facilities responding to the questionnaire stated that they provided to their patients and their communities various types of educational, religious, hospital, scientific, or charitable activities in addition to medical care. Examples included research with universities, educational activities for doctors and nurses, referral and outreach services to seniors, subsidized housing or meals, and adult day care.

A total of 32 facilities not serving Medi-Cal patients and 24 facilities reporting less than 30 percent of their patient days to Medi-Cal stated that they provided subsidized medical care, a form of uncompensated care, to patients. Representatives from the facilities not serving Medi-Cal patients estimated that they provided subsidized care to more than 760 patients in 1990 at a value of $17.3 million.

Bad debt expense is often included with charity care as uncompensated care. In 1990, facilities serving few or no Medi-Cal patients reported bad debts of approximately $519,000 ($.20 per patient day).

Activities and Services Provided to Facility Residents and the Community

According to the Attorney General's "Guide for Charities," charitable purposes are defined broadly in California common law. Charitable purposes include relief of poverty, advancement of education or religion, promotion of health, governmental or municipal purposes, or other purposes beneficial to the community. Black's Law Dictionary defines charity in numerous ways, including the accomplishment of some social interest; the advancement of purposes beneficial to the public; all activities that aid mankind and seek to improve its condition; the improvement of spiritual, mental, social, and physical conditions; and the lessening of the burdens of government. In a 1981 decision, a California Court of Appeals ruled that charity encompasses activities of generally humanitarian nature, for the improvement and betterment of mankind, without regard to whether those activities provide relief for the destitute or benefit those who may be able to pay a portion of cost.[3] In an earlier California Court of Appeals decision, the court ruled that a home for the aged which caters to wealthy persons and furnishes them those services and care needed by the old and infirm, rich or poor, does not cease to be a charitable institution entitled to exemption from property taxation so long as its charges do not yield more than the actual costs of operation.[4]

A total of 224 facilities did not serve Medi-Cal patients or reported less than 30 percent of their patient days to Medi-Cal. These 224 facilities represented 147 investor-owned and 77 nonprofit facilities. Many of these facilities provided services and activities that benefited their residents and communities. We asked the 224 facilities to indicate the significant and frequent services and activities they provided to benefit their patients and communities. A total of 195 (87 percent) of the 224 facilities surveyed responded to our questionnaire. A total of 153 facility representatives stated that, in addition to medical care, their facilities provided several types of educational, religious, hospital, scientific, or charitable activities that benefited their residents and communities.

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[3]Santa Catalina Island Conservancy v. Los Angeles County, 178 Cal. Rptr. 708, 126 C.A.3d 221 (1981).

[4]Fifield Manor v. Los Angeles County, 10 Cal. Rptr. 242, 188 C.A.2d 1 (1961).

Facilities Not Serving Medi-Cal Patients

When analyzing the responses to this part of our survey of long-term care facilities, we divided the facilities into four groups: investor-owned facilities not serving Medi-Cal patients, nonprofit facilities not serving Medi-Cal patients, investor-owned facilities reporting less than 30 percent of their patient days to Medi-Cal, and nonprofit facilities reporting less than 30 percent of their patient days to Medi-Cal. Due to the subjective nature of the services and activities provided to patients, we did not estimate their actual monetary value.

A total of 72 facilities not serving Medi-Cal patients, consisting of 39 investor-owned and 33 nonprofit facilities, reported that they provided some types of services or activities to their patients or communities. Representatives from 23 of these 72 facilities stated that they did not provide services or activities other than medical care to their patients. Table 12 summarizes the types of services and activities facility representatives stated that they provided to their patients and communities in calendar year 1991. Some facilities provided more than one service or activity.

Table 12 Educational, Religious, Hospital, or Charitable Services and Activities Offered by Facilities Not Serving Medi-Cal Patients Calendar Year 1991

Services/Activities	Investor-Owned Facilities	Nonprofit Facilities	Total Facilities Responding
No services or activities except medical care	22	1	23
Research with other organizations, such as universities	5	10	15
Educational activities for professionals, such as doctors and nurses	26	19	45
Subsidized (charity) allowances to residents unable to pay fully established rates (private pay rates)	7	25	32
Payment for items not reimbursed by the Medi-Cal program	5	10	15
Religious services for nonresidents	3	8	11
Referral and outreach services to nonresidents	11	15	26
Subsidized housing or other care excluding nursing	0	6	6
Support groups for nonresidents	17	12	29
Subsidized meals for nonresidents	1	7	8
Financial assistance to nonresidents who were unable to pay for necessary living expenses	0	4	4
Subsidized adult day care centers	0	2	2
Use of facilities, such as kitchens or meeting spaces, for nonprofit organizations	12	25	37

A total of 32 facilities not serving Medi-Cal patients reported that they provided subsidized medical care to patients in calendar year 1991. Subsidized care is a form of uncompensated care, which is care provided by long-term care facilities that is not paid for by Medi-Cal, Medicare, private payers, or others. A total of 7 investor-owned facilities reported that they provided subsidized

care to 29 patients, and 25 nonprofit facilities provided subsidized care to 733 patients. Investor-owned facilities estimated the value of this subsidized care at approximately $526,500. Nonprofit facilities estimated the value of their subsidized care at approximately $16,781,000. However, one nonprofit facility that provided subsidized care did not report the value of the care it provided or the number of patients it subsidized.

A total of 3 of the 32 facilities accounted for 60.3 percent of the total value of subsidized medical care. The administrator of one of these 32 facilities estimated that his facility provided subsidized care to approximately 90 percent of the 136 patients in the skilled nursing facility. The administrator estimated that the amount of the subsidized care totaled $7 million in calendar year 1991. Further, the administrator stated that all of the facility's patients would have been eligible for Medi-Cal benefits. If the facility had received reimbursement from the Medi-Cal program for these eligible patients, we estimate that the Medi-Cal program would have paid approximately $2.6 million annually to this facility. At a second nonprofit facility, the administrator reported that the facility provided subsidized care to 110 patients. The administrator estimated the amount of subsidized care to be approximately $1,635,000 in calendar year 1991. At a third facility, approximately 30 patients received subsidized care valued at approximately $1.8 million.

Facilities Reporting Less than 30 Percent of Their Patient Days to Medi-Cal

For long-term care facilities reporting less than 30 percent of their patient days to Medi-Cal, 81 facilities reported that they provided services and activities to their patients or communities. These 81 facilities consisted of 45 investor-owned facilities and 36 nonprofit facilities. Representatives from 19 facilities stated that they did not provide services or activities other than medical care. Table 13 summarizes the types of services and activities these facilities reported that they provided for their residents and communities in calendar year 1991.

Table 13 Educational, Religious, Hospital, or Charitable Services and Activities Offered by Facilities Reporting Less Than 30 Percent of Their Patient Days to Medi-Cal Calendar Year 1991

Services/Activities	Investor-Owned Facilities	Nonprofit Facilities	Total Facilities Responding
No services or activities except medical care	18	1	19
Research with other organizations, such as universities	3	10	13
Educational activities for professionals, such as doctors and nurses	30	27	57
Subsidized (charity) allowances to residents unable to pay fully established rates (private pay rates)	2	22	24
Payment for items not reimbursed by the Medi-Cal program	20	25	45
Religious services for nonresidents	3	19	22
Referral and outreach services to nonresidents	10	20	30
Subsidized housing or other care excluding nursing	0	11	11
Support groups for nonresidents	20	24	44
Subsidized meals for nonresidents	3	8	11
Financial assistance to nonresidents who were unable to pay for necessary living expenses	0	6	6
Subsidized adult day care centers	0	2	2
Use of facilities, such as kitchens or meeting spaces, for nonprofit organizations	14	32	46

Twenty-four facilities reporting less than 30 percent of their patient days to Medi-Cal provided subsidized medical care to patients in calendar year 1991. A total of 22 of these 24 facilities were nonprofit facilities, while the remaining two were investor-owned. In addition, these facilities reported services and activities similar to those of facilities not serving Medi-Cal patients. For example, an administrator from a nonprofit entity that owns several

facilities reported that the facilities provided numerous services and activities for its residents and community. This entity owned or managed low-income elderly housing units in six different communities. The entity also provided assessment and referral services for nonresidents, conducted seminars and workshops on aging and other related topics, and provided free space for child day care at one of its facilities.

Facilities With Bad Debt Expense

Long-term care facilities serving Medi-Cal patients had higher bad debt expenses than facilities not serving Medi-Cal patients. Bad debt expense is defined by the Office of Statewide Health Planning and Development (OSHPD) as uncollectible receivables and is often included with charity care as uncompensated care. For example, in a May 1990 U.S. General Accounting Office report "Nonprofit Hospitals: Better Standards Needed for Tax Exemption," uncompensated care was defined to include both charity care and bad debt expense.

Of the 1,052 facilities serving Medi-Cal patients in 1990, 575 facilities reported bad debt expenses representing approximately $8,711,000 ($.27 per patient day). A total of 523 of the 908 investor-owned facilities reported bad debt expenses of approximately $6,923,000, while 52 of the 144 nonprofit facilities reported approximately $1,788,000. This amount represents a per patient day bad debt expense of $.24 for investor-owned facilities and $.44 for nonprofit facilities.

Of the 125 facilities not serving Medi-Cal patients in 1990, 47 facilities reported bad debt expenses representing approximately $519,000 ($.20 per patient day). Of these 125 facilities, 36 of 87 investor-owned facilities reported bad debt expenses of approximately $406,000 ($.21 per patient day), while 11 of the 38 nonprofit facilities reported bad debt expenses of approximately $113,000 ($.18 per patient day). Table 14 compares the amounts of bad debt expenses for 1990.

Table 14 Comparison of Bad Debt Expense for Facilities Serving Medi-Cal Patients and for Facilities Not Serving Medi-Cal Patients 1990

	Total Bad Debt Expense	Bad Debt Expense per Patient Day
Facilities Serving Medi-Cal Patients		
Investor-owned facilities	$6,923,000	$.24
Nonprofit facilities	1,788,000	.44
Subtotal	8,711,000	.27
Facilities Not Serving Medi-Cal Patients		
Investor-owned facilities	406,000	.21
Nonprofit facilities	113,000	.18
Subtotal	519,000	.20
All facilities	**$9,230,000**	**$.26**

Chapter 3 Comparison of Net Income or Loss, Property Taxes, and Income Taxes of Investor-Owned and Nonprofit Facilities

Chapter Summary

A total of 87 investor-owned facilities not serving Medi-Cal patients in 1990 reported that they earned a total of $1,173,000 ($.62 per patient day). Thirty-eight nonprofit facilities not serving Medi-Cal patients reported total net losses of $7,887,000 ($12.26 per patient day). Nonprofit facilities serving Medi-Cal patients reported net losses for 1990 of $13,002,000 ($3.17 per patient day).

Long-term care facilities organized as profit entities reported property and income taxes of approximately $19,700,000. This represents an average cost per patient day of $.43 for property taxes and $.13 for income taxes. For nonprofit facilities, the amount of property and income taxes totaled $683,000. This represents $.14 per patient day for property taxes and no payment for income taxes. The amounts paid by nonprofit facilities are less than those paid by investor-owned facilities because state and federal laws generally exempt nonprofit entities from paying these taxes.

Comparison of Net Income or Loss

For 1990, 908 investor-owned facilities serving Medi-Cal patients reported their net income or loss to the Office of Statewide Health Planning and Development (OSHPD). A facility has a net income when total revenues exceed total expenses. Conversely, if revenues are less than expenses, the facility incurs a net loss. A total of 376 (41 percent) of the 908 facilities serving Medi-Cal patients reported net losses, while the remaining 532 facilities (59 percent) reported net income. Net income or loss accounts for all income and expenses, including provisions for income taxes and nonhealth care-related operations, such as residential care.

Of the 87 investor-owned facilities not serving Medi-Cal patients, 53 (61 percent) reported net income while 34 (39 percent) reported net losses. For the 144 nonprofit facilities serving Medi-Cal patients, 64 (44 percent) reported net income, while 80 (56 percent) reported net losses. Of the 38 nonprofit facilities not serving Medi-Cal patients, 18 facilities (47 percent) reported net income, 19 (50 percent) reported net losses, and one (3 percent) reported neither a net loss nor a net income. Table 15 summarizes the aggregate amount of net income or losses reported by the facilities and the average amounts per patient days.

Table 15 **Net Income or Loss of Long-Term Care Facilities 1990**

	Total Net Income (Loss)	Average Net Income (Loss) per Patient Day
Facilities Serving Medi-Cal Patients		
Investor-owned facilities	$ (4,874,000)	$(0.17)
Nonprofit facilities	(13,002,000)	(3.17)
Facilities Not Serving Medi-Cal Patients		
Investor-owned facilities	1,173,000	0.62
Nonprofit facilities	(7,887,000)	(12.26)
All facilities	**$(24,590,000)**	**$(0.70)**

The OSHPD stated in its 1990 report "Aggregate Long-Term Care Facilities Financial Data" that profits from health care operations in long-term care facilities are declining. The OSHPD reported that facilities, in aggregate, have reported net losses for 1988 through 1990. These net losses have contributed to the decline of the facilities' equity. In 1988, total equity was $412,652,890. By 1990, total equity had declined by $62,498,696 (15.1 percent) to $350,154,194. Equity represents the amount of capital and retained earnings of an entity.

For investor-owned facilities, a net income or loss reported to the OSHPD would not necessarily mean that the facility experienced a net income or loss for income tax purposes in that year. Federal and state tax codes allow reporting of certain expenditures, such as depreciation of assets, differently from OSHPD reporting requirements.

Comparison of Property Taxes and Income Taxes

In California, the payment of property and income taxes is determined by the type of entity operating the long-term care facilities. Investor-owned facilities are liable for paying property taxes and federal and state income taxes, whereas nonprofit facilities may be exempted from these taxes. Facilities are tax exempt only if they meet all the legal requirements.

The California Revenue and Taxation Code exempts property from taxation if it is used exclusively for religious, hospital, scientific, or charitable purposes. The property must be owned and operated by community chests, funds, foundations, or corporations organized and operated for religious, hospital, scientific, or charitable purposes. Further, the entity cannot be organized or operated for profit, and no part of the net earnings can benefit any private shareholder or individual. Finally, the property must be used for the actual operation of the exempt activity and cannot exceed what is reasonably necessary to accomplish the purpose for which it is exempt.

An entity is exempt from federal income taxes if it is operated exclusively for religious, charitable, scientific, literary, or educational purposes; if it provides testing for public safety; if it fosters amateur sports competition; or if it is for the prevention of cruelty to children or animals. Further, no part of the entity's net earnings can accrue to the benefit of any private shareholder or individual. Also, a substantial part of the entity's activities cannot involve propaganda or attempting to influence legislation or participating or intervening in any political campaign. The State's requirements for exemption from state income taxes are similar to the federal requirements.

Property and Income Taxes Paid by Investor-Owned and Nonprofit Facilities

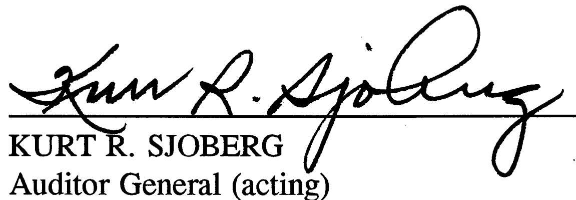
Investor-owned facilities paid more property and income taxes per patient day than nonprofit facilities in 1990. In addition, investor-owned facilities not serving Medi-Cal patients paid less federal and state income taxes per patient day than did investor-owned facilities serving Medi-Cal patients. Table 16 shows the amounts that facilities paid for property taxes and income taxes in 1990.

Table 16 **Property and Income Taxes Paid by Long-Term Care Facilities 1990**

	Property Taxes		Federal and State Income Taxes	
	Total	Per Patient Day	Total	Per Patient Day
Investor-owned facilities serving Medi-Cal patients	$13,658,000	$.48	$4,370,000	$.15
Investor-owned facilities not serving Medi-Cal patients	1,605,000	.85	67,000	.04
Nonprofit facilities serving Medi-Cal patients	552,000	.13	0	.00
Nonprofit facilities not serving Medi-Cal patients	131,000	.20	0	.00

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



KURT R. SJOBERG
Auditor General (acting)

Date: April 20, 1992

Staff: Robert E. Christophel, Audit Manager
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STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

PETE WILSON, *Governor*

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April 7, 1992

Mr. Kurt R. Sjoberg
Auditor General (Acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

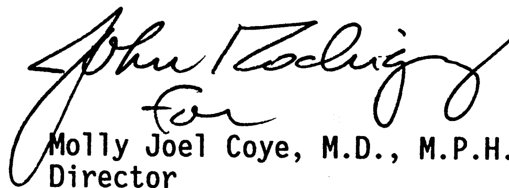
Dear Mr. Sjoberg:

Thank you for the opportunity to review your draft report entitled "Long-Term Care in California: A Comparison of Financial and Utilization Data for Investor-Owned and Nonprofit Facilities." Secretary Gould has asked me to respond.

The Department does not have any specific comments on the scope, methodology, and findings of the report. We did find the report to contain useful information on provider participation, facility services, and financial status, and we will use this for future program planning.

We appreciate the opportunity to review this draft report.

Sincerely,



Molly Joel Coye, M.D., M.P.H.
Director

STATE OF CALIFORNIA - HEALTH AND WELFARE AGENCY PETE WILSON, *Governor*

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April 8, 1992

Kurt R. Sjoberg
Auditor General (Acting)
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to review and comment on the report entitled "Long-Term Care in California: A Comparison of Financial and Utilization Data for Investor-Owned and Nonprofit Facilities." The report drew heavily on the Office of Statewide Health Planning and Development's long-term care facility financial and utilization data. I am glad that you found the Office's long-term care facility data useful in preparing the report. The Office's staff enjoyed working with your staff during the study.

My staff have carefully reviewed the proposed report and have identified three areas which could benefit from further clarification: (1) the presentation of the number of long-term care facilities operating in California, (2) the comparison of reimbursement levels by the major payer categories, and (3) the definition of facility net income (loss).

Number of Long-term Care Facilities

The data base provided to your office consists of all of the annual financial statements and supporting schedules which are required to be submitted to OSHPD shortly after the close of each facility's fiscal year. The number of such reports filed is not the same as the number of licensed long-term care facilities available to Californians at any point in time, since reports are filed by facilities which close during the year, some facilities may file more than one report during the year because of changes in ownership, newly licensed facilities may not be included since their report period had not ended during that year, and some facilities are excluded due to reporting delinquencies. Without a listing of facilities included in the data base for this report, we cannot reconcile the counts provided with our files. In any case, a count of long-term care facilities based on financial statements filed with OSHPD will not be the same as the number of facilities licensed to operate in California.

Page S-1 and later pages throughout the report state that there were 1,177 long-term care facilities in California in 1990. Page 2 of the report notes that this is a slight reduction from 1,202 facilities in 1988. Based on data from our Licensing File System (LFS) which is driven by license information provided by the Licensing and Certification Division of the Department of Health Services, there were 1,230 licensed long-term care facilities in California as of December 31, 1990, compared with 1,212 at the close of 1988. This is perhaps a better indicator of the total long-term care facility resources available to Californians and changes in that resource inventory over time. (1)

(1) The Office of the Auditor General's comment: Rather than using data from other sources, such as the Licensing and Certification Division of the Department of Health Services, we used data from the OSHPD to ensure that all data elements in our analyses were comparable.

Reimbursement by Payer Category

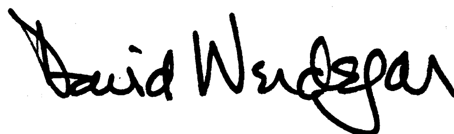
The discussion of reimbursement by Medicare, Medi-Cal, and private payers on pages 8 and 9 of the report could be misleading. The "average rates" used in the discussion are the average revenue amounts which the 1,177 facilities expected to receive per patient day, regardless of the level of care provided to the patient. Because of this, the "average rate" shown for Medi-Cal includes intermediate care, a less intensive and less expensive level of care than skilled nursing. This is not directly comparable to Medicare, since the Medicare "average rate" includes only skilled nursing care. Medicare does not pay for intermediate care and limits its payment for skilled nursing care only to Medicare patients entering the long-term care facility immediately after a stay of at least three days in an acute care hospital. Medicare also limits the number of days of care it will pay for. These factors, which tend to suggest that Medicare patients receive more intensive and more expensive services in the long-term care facility setting, should be discussed in the report so that readers may consider them, particularly when making comparisons with Medi-Cal "average rates". ②

Net Income (Loss)

On page 31 of your report is a table displaying "Net Income (Loss)." It is not clear whether the net income (loss) is from health care operations or is the final net income (loss) amount including nonhealth care operations and income taxes. This question results from the discussion included on page 32 which mentions "profits from health care operations." In the Office's required accounting system, a distinction is made between "Income/Loss from Health Care Operations," which is the net of revenues and expenses related to the provision of licensed health care, and "Net Income/Loss," which includes revenues and expenses for residential and other nonhealth care operations, gifts and contributions, any other nonoperating gains or losses, and the effect of income taxes. It would be helpful if "Net Income (Loss)" was defined in the report. ③

Again, we appreciate the opportunity to provide our comments prior to the release of the report and hope that they are helpful.

Sincerely,



David Werdegar, M.D., M.P.H.
Director

② The Office of the Auditor General's comment: The report has been changed to reflect this comment.

③ The Office of the Auditor General's comment: The report has been changed to reflect this comment.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps