



Earthquake-Compliant Hospital Buildings vs. Access to Care: California's Careful Balancing Act

An Issue Summary

Hospitals are a vital part of communities throughout California, providing life-saving care 24 hours a day, seven days a week, regardless of patients' ability to pay. Hospitals also provide a safe haven to communities in times of natural disaster, such as earthquakes, or during public health epidemics, such as the recent H1N1 influenza.

While California hospitals put the needs of patients and public safety first, hospitals are facing significant challenges in complying with the state's mandated deadlines for earthquake building requirements. The goal of having earthquake-compliant hospital buildings is a worthy public policy objective supported by the hospital community. However, more than 270 hospital buildings may be forced to close and health care services eliminated if they cannot comply with the mandated 2013/2015 deadlines.

The Issue

The burden of meeting the state's seismic retrofit requirements will be impossible for a substantial number of California hospitals. Due to the impacts of the nearly two-year recession, many of California's community hospitals are not credit worthy and are unable to raise the capital necessary to meet the requirements of this unfunded mandate, which is estimated to cost hospitals as much as \$110 billion. Due to the serious economic decline in California and across the nation, California's community hospitals have sustained sizable losses in their investment portfolios, are facing decreased income from operations, and are dealing with declines in their philanthropic contributions.

These economic impacts, along with the rising cost of the uninsured and other charity care costs, have seriously weakened hospitals' financial positions and their ability to fund the construction of new hospital buildings – estimated at nearly \$2 million per bed.

The impact on hospitals and health systems in California is becoming clearer: more than half of California's hospitals are operating in the red, many are not credit worthy, and a number of hospitals are on the brink of, or in, bankruptcy. In this environment, ensuring access to the capital markets has become urgent. However, the bond markets that provide the bulk of capital to the hospital industry are more difficult and costly to access, even for hospitals with positive bottom lines. This financial environment has jeopardized hospitals' ability to meet the seismic retrofit and rebuilding deadlines required by SB 1953.

Cain Brothers, national investment bankers and capital advisers to hospitals, report that:

“Adding the additional burden of meeting seismic retrofit requirements will be difficult for all hospitals and may not be possible for some of the most financially vulnerable hospitals and health systems. For those that have the ability to raise the capital to meet the requirements of SB 1953, diverting this capital away from core operations and their balance sheets will mean compromising these hospitals’ ability to provide capital to their core operations and will significantly limit financial flexibility in the future.”

In 1994, a few months after the Northridge earthquake, California’s Legislature enacted SB 1953 requiring all California hospitals to meet sweeping new earthquake-compliance standards. This law, the largest unfunded mandate passed in state history, was intended to ensure the California’s community hospitals would remain operational after a large earthquake. While California’s hospitals have been working hard to meet the seismic deadlines, the eroding financial condition of hospitals is impeding many others from beginning or completing their building projects. If hospitals cannot meet the current deadlines, they will be forced to close. This will leave California’s growing population with less access to life-saving health care services and health care workers with no place to care for patients.

Since 1994, a number of important programs and statutes have been enacted to help hospitals implement seismic building projects. They include:

- New policies and procedures implemented by the Office of Statewide Health Planning and Development (OSHPD) to expedite plan reviews and construction.
- Implementation of Hazards US (HAZUS). Developed by OSHPD in conjunction with the Hospital Building Safety Board, HAZUS is a state-of-the-art modeling technology that allows for more accurate evaluation of the seismic-safety level of hospital buildings. Through HAZUS, a number of hospital buildings have been reclassified to lower levels of risk, taking them from Structural Performance Category (SPC-1) with the highest risk of collapse to SPC-2 (lower category of risk). As a result, more than half of the hospital buildings that had to be retrofitted or replaced by 2013/2015 now can be rebuilt by 2030. This was expanded to additional hospitals in 2009 through SB 499.
- California’s SB 1661 law, enacted in 2006, which allows up to a two-year extension for compliance. Under prescribed conditions, hospitals may apply for a deadline extension from 2013 to 2015 if they demonstrate a good-faith effort to meet the original mandate. Hospitals were required to submit reports on all SPC-1 buildings to OSHPD by June 30, 2009.
- SB 306, enacted in 2007, allows hospitals that meet specific financial criteria, as well as county- and city-owned hospitals, to receive an extension to 2020, only if 2030 seismic-mandate requirements are met by the earlier deadline.

While hospitals throughout California have made significant progress, it is not enough. More must be done to ensure access to critical hospital services remains available for all Californians. In 2009, the California HealthCare Foundation (CHCF) released a report titled *Facts and Find-*

ings for Policymakers: Hospital Seismic Safety, which recommended that policymakers consider new and appropriate policy changes to the original SB 1953 mandate based on the final requests for HAZUS exemptions and the reports from hospitals on all existing SPC-1 buildings.

Policy Recommendation

The California Hospital Association (CHA) concurs with CHCF's recommendation that policymakers should re-evaluate seismic-compliance requirements for hospitals. While California's earthquake compliance law is an important goal shared equally by hospital leaders, health care workers, patients and community members, policymakers must now provide more flexible options for hospitals to meet the compliance requirements given the dire economic environment.

There is a delicate balance between ensuring that seismically safe hospitals are available during, and accessible after, an earthquake, and ensuring hospitals have the resources to stay open and meet mandated deadlines prior to experiencing an earthquake. CHA recommends:

- The 2013 seismic deadline be moved to 2015 to ensure hospitals that miss the 2013 deadline are not forced to close.
- Hospitals/health systems are allowed an additional extension of up to five years to the 2015 deadline under prescribed conditions.
- Hospitals may receive an extension to 2020 if they meet 2030 seismic requirements by 2020 under prescribed conditions
- Hospitals and health systems must be granted special circumstance extensions when project delays occur due to circumstances beyond the hospital's control.