



County of Monterey

Item No.3

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

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Receive Natividad Medical Center's financial report for the third quarter (January through March 2026) of fiscal year 2026 and estimated funding reductions resulting from anticipated state and federal funding changes arising from H.R.1.

RECOMMENDATION:

Receive Natividad Medical Center's financial report for the third quarter (January through March 2026) of fiscal year 2026 and estimated funding reductions resulting from anticipated state and federal funding changes arising from H.R.1.

SUMMARY/DISCUSSION:

Financial Results for the 3rd Quarter (January 1, 2026, to March 31, 2026)

For the quarter ending March 2026, Natividad reported an average daily inpatient census (ADC) of 115.5 compared to a budgeted 128.0, reflecting lower-than-anticipated patient volumes across all inpatient nursing units, including Medical/Surgical, OBGYN, NICU, Pediatrics, ICU, ARU, and Psychiatric Services. Total patient days were approximately 10% below budget for the quarter. Average adjusted patient days, which include both inpatient and outpatient activity, totaled 16,016 compared to a budget of 17,682, an unfavorable variance of 9.4%. Emergency Department visits were also below expectations, declining 7.7% from budgeted levels for the quarter.

As a result of lower patient volumes and an unfavorable payer mix, the hospital reported a negative net margin of \$2.1 million for the quarter compared to a budgeted positive margin of \$737 thousand. Net patient revenue totaled \$76.1 million, which was \$4.6 million (5.7%) below budget, primarily attributable to lower inpatient revenue performance. Government funding revenue of \$25.1 million was consistent with budget projections. Other operating revenue exceeded budget by 78.5%, totaling \$7.5 million, largely driven by higher interest earnings and quality incentive payments received from Central California Alliance for Health. Interest income alone exceeded budget by approximately \$1.5 million for the quarter, while rental income also performed slightly above projections.

Operating expenses for the quarter totaled \$111.2 million, representing an increase of 1.4% above budget. Higher labor-related expenditures were driven by cost-of-living adjustments, benefits, and the ongoing need for nurse traveler coverage in high-demand departments including Labor & Delivery, ICU, Medical/Surgical, and the Emergency Department. Salaries and benefits exceeded budget by \$3.8 million, and physician-related costs increased by \$1.1 million. These increases were partially

offset by favorable variances in purchased services, supplies, medications, and other operating expenses.

Year-to-date through March 2026, the average daily inpatient census was 116.2 compared to a budgeted 128.0, reflecting a 9.2% unfavorable variance. Adjusted patient days totaled 48,940 versus a budget of 52,663, a decline of 7.1%. Emergency Department visits totaled 43,250, which was 3.2% below prior year levels and 5.4% below budget.

The year-to-date net operating margin through March 2026 was negative \$4.8 million compared to a budgeted positive margin of \$2.3 million. Net patient revenue totaled \$228.2 million, approximately \$17.3 million (7.1%) below budget. Government funding revenue of \$76.6 million aligned with budget expectations, while other operating revenue of \$22.1 million exceeded budget by 75.0%, primarily due to higher interest income and additional recognized revenues during the fiscal year.

Year-to-date operating expenses totaled \$331.6 million, slightly favorable to budget by approximately \$764 thousand (0.2%). While salaries, wages, physician fees, and contract labor exceeded budget, these increases were offset through reductions in registry staffing, purchased services, supplies, and depreciation expense.

Collections from patients and payers were \$238.8 million year-to-date. Balance in cash Fund 451 was \$128.9 million, State and Federal Intergovernmental Fund was \$24.4 million, Capital Fund was \$158.7 million, and the Strategic Reserve was \$33.5 million.

Average collections per month for the quarter were \$29.1 million as compared to \$20.5 million on average per month for the past quarter. The average collections per month for the year is \$26.5 million.

Gross patient receivables were \$209.6 million or 53.4 days in receivables. Receivables were lowered by \$31.0 million from the past quarter. Medi-Cal managed care and commercial managed care had the highest reduction in receivables by \$25.4 million (\$11.1 million and \$14.3 million respectively). Distribution by payer: 8.9%, Medi-Cal, 24.5% Medi-Cal Managed Care, 19.2% Medicare, 38.0% Commercial, 1.2% Self-Pay, and 8.2% Short Doyle.

Estimated Funding Impacts from HR1

H.R. 1 (the "One Big Beautiful Bill Act," signed into law on July 4, 2025) fundamentally restructures the financial framework governing hospital reimbursement nationwide, with a disproportionate and severe impact on safety net hospitals. The Act is projected to result in multi-billion-dollar reductions in federal Medi-Cal spending over the coming decade, with far-reaching consequences for hospitals serving vulnerable and underserved populations.

Quantifying the full financial impact of H.R. 1 remains difficult at this time, as many of its provisions will be phased in over the coming years. The estimates below reflect current projections based on available information; they will be refined as implementation guidance and actual data become available.

- State-Directed Payment Reductions (EPP & QIP). Effective January 1, 2028
Federal legislation will reduce state-directed payments under the Enhanced Payment Program (EPP) and Quality Incentive Program (QIP) by 10% annually until reimbursement reaches Medicare rate parity. Based on current payment levels, this represents an estimated annual reduction of \$12.7M, with full impact realized over an estimated 6 to 7 years, yielding a projected cumulative reduction of \$76.3M.
- Additional H.R. 1 Provisions. Effective Fall 2026 and Beginning 2027
A broad set of additional provisions are expected to take effect beginning in Fall 2026 and throughout 2027, including:
 - Federal Medical Assistance Percentage (FMAP) reductions affecting emergency services for the Undocumented Immigrant Services (UIS) population
 - Required transition of the UIS population from Medi-Cal managed care to state fee-for-service
 - Medi-Cal disenrollment tied to work or community service requirements
 - Semi-annual eligibility redeterminations and address verification requirements
 - Cost-sharing obligations for adults, including premium contributions
 - Expiration of enhanced subsidies for Covered California exchange enrollees
 - Others

The financial impact is expected to be most acute during the initial implementation period. Projected reductions are estimated at \$11.7M annually in years one through three, moderating to approximately \$1.6M per year thereafter, with a projected cumulative reduction of \$34M over an 8 to 10 year period.

Natividad senior leadership has maintained ongoing engagement with state and federal representatives, coordinating closely with the California Association of Public Hospitals (CAPH) - a trusted ally and the recognized voice of public hospital systems throughout California.

These meetings serve a critical advocacy function, ensuring that elected and appointed officials remain informed of the evolving healthcare landscape in Monterey County and, in particular, the operational and community impact of changes affecting Natividad Medical Center. Leadership is committed to sustaining this engagement as a strategic priority going forward.

On-going Efforts

In response to current and emerging financial pressures, Natividad has retained Coker Group and ECG Management Consultants to drive targeted, organization-wide operational performance improvements.

In close collaboration with hospital leadership, The Coker Group has spearhead a transformative initiative to identify operational and financial efficiencies in the areas of supply chain, purchased services, revenue cycle management, health information technology, ambulatory care, and pharmacy

operations. The goal is to streamline organizational performance and set a new standard for excellence in service delivery.

ECG Management Consultants will focus on labor optimization and broader operational efficiency strategies designed to strengthen long-term financial sustainability while maintaining high-quality patient care and access to services for the community.

OTHER AGENCY INVOLVEMENT/COMMITTEE ACTIONS:

None.

FINANCING:

Funding provided by NMC's Enterprise Fund.

Prepared and Approved by: Daniel Leon, Chief Financial Officer, 831-783-2551

Attachments:

NMC's Financial Statements