

**Introduced by Senator Beall**February 26, 2015

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An act to amend Section 128740 of, and to add Section 1253.7 to, the Health and Safety Code, relating to health care.

## LEGISLATIVE COUNSEL'S DIGEST

SB 483, as introduced, Beall. General acute care hospitals: observation services.

(1) Existing law establishes the State Department of Public Health and sets forth its powers and duties, including, but not limited to, the licensing and regulation of health facilities, including, but not limited to, general acute care hospitals. A violation of these provisions is a crime.

Existing law authorizes the department to issue a special permit authorizing a health facility to offer one or more special services when specified requirements are met. Existing law requires general acute care hospitals to apply for supplemental services approval and requires the department to, upon issuance and renewal of a license for certain health facilities, separately identify on the license each supplemental service. Existing law requires a hospital to report specified summary financial and utilization data to the Office of Statewide Health Planning and Development (OSHPD) within 45 days of the end of the every calendar quarter.

This bill would require a general acute care hospital that provides observation services, as defined, to apply for approval from the department to provide these services as supplemental services. The bill would require the department to adopt standards and regulations for a hospital providing observation services as an approved supplemental service under the general acute care hospital's license. The bill would

require hospitals to include certain data relating to observation service visits and total observation service gross revenues in the reports filed with OSHPD.

(2) Because a violation of these provisions by a health facility would be a crime, the bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 1253.7 is added to the Health and Safety  
2 Code, to read:

3 1253.7. (a) (1) For purposes of this chapter, “observation  
4 services” means outpatient services provided by a general acute  
5 care hospital to those patients described in subdivision (e) who  
6 have unstable or uncertain conditions potentially serious enough  
7 to warrant close observation, but not so serious as to warrant  
8 inpatient admission to the hospital. Observation services may  
9 include the use of a bed, monitoring by nursing and other staff,  
10 and any other services that are reasonable and necessary to safely  
11 evaluate a patient’s condition or determine the need for a possible  
12 inpatient admission to the hospital.

13 (2) For purposes of this chapter, “observation unit” means an  
14 area where observation services are provided in a setting outside  
15 of an inpatient unit of a general acute care hospital.

16 (b) Observation services may be provided for a period of no  
17 more than 24 hours.

18 (c) A general acute care hospital that provides observation  
19 services in an observation unit shall apply for approval from the  
20 department, pursuant to subdivision (a) of Section 1253.6, to  
21 provide services in an observation unit as a supplemental service.

22 (d) The department shall adopt standards and regulations,  
23 pursuant to subdivision (a) of Section 1275, for providing  
24 observation services in an observation unit as a supplemental  
25 service under the general acute care hospital’s license.

1 (e) Observation services may be ordered by an appropriately  
2 licensed practitioner only for any of the following:

3 (1) A patient who has received triage services in the emergency  
4 department but has not been admitted as an inpatient.

5 (2) A patient who has received outpatient surgical services and  
6 procedures.

7 (3) A patient who has been admitted as an inpatient and is  
8 discharged to receive observation services.

9 (4) A patient previously seen in a physician’s office or outpatient  
10 clinic.

11 (f) Notwithstanding subdivisions (d) and (e) of Section 1275,  
12 observation services provided by the general acute care hospital  
13 in an observation unit, including the services provided in a  
14 freestanding physical plant, as defined in subdivision (g) of Section  
15 1275, shall comply with the same staffing standards, including,  
16 but not limited to, licensed nurse-to-patient ratios, as supplemental  
17 emergency services.

18 (g) A patient receiving observation services shall receive written  
19 notice that his or her care is being provided on an outpatient basis,  
20 and that this may impact reimbursement by Medicare, Medi-Cal,  
21 or private payers of health care services, or cost-sharing  
22 arrangements through his or her health care coverage.

23 (h) Observation units shall be marked with signage identifying  
24 the area as an outpatient area. The signage shall use the term  
25 “outpatient” in the title of the area to clearly indicate to all patients  
26 and family members that the observation services provided in the  
27 center are not inpatient services.

28 (i) Observation services shall be deemed outpatient or  
29 ambulatory services that are revenue-producing cost centers  
30 associated with hospital-based or satellite service locations that  
31 emphasize outpatient care. Identifying an observation unit by a  
32 name or term other than that used in this subdivision does not  
33 exempt the general acute care hospital from the requirement to  
34 obtain approval from the department to provide observation  
35 services as a distinct supplemental service when observation  
36 services are provided in a setting outside of an inpatient unit of a  
37 general acute care hospital.

38 SEC. 2. Section 128740 of the Health and Safety Code is  
39 amended to read:

1 128740. (a) Commencing with the first calendar quarter of  
2 1992, the following summary financial and utilization data shall  
3 be reported to the office by each hospital within 45 days of the  
4 end of every calendar quarter. Adjusted reports reflecting changes  
5 as a result of audited financial statements may be filed within four  
6 months of the close of the hospital's fiscal or calendar year. The  
7 quarterly summary financial and utilization data shall conform to  
8 the uniform description of accounts as contained in the Accounting  
9 and Reporting Manual for California Hospitals and shall include  
10 all of the following:

- 11 (1) Number of licensed beds.
- 12 (2) Average number of available beds.
- 13 (3) Average number of staffed beds.
- 14 (4) Number of discharges.
- 15 (5) Number of inpatient days.
- 16 (6) Number of outpatient visits, *excluding observation service*  
17 *visits.*
- 18 (7) *Number of observation service visits and number of hours*  
19 *of services provided.*
- 20 ~~(7)~~
- 21 (8) Total operating expenses.
- 22 ~~(8)~~
- 23 (9) Total inpatient gross revenues by payer, including Medicare,  
24 Medi-Cal, county indigent programs, other third parties, and other  
25 payers.
- 26 ~~(9)~~
- 27 (10) Total outpatient gross revenues by payer, including  
28 Medicare, Medi-Cal, county indigent programs, other third parties,  
29 and other payers.
- 30 (11) *Total observation service gross revenues by payer,*  
31 *including Medicare, Medi-Cal, county indigent programs, other*  
32 *third parties, and other payers.*
- 33 ~~(10)~~
- 34 (12) Deductions from revenue in total and by component,  
35 including the following: Medicare contractual adjustments,  
36 Medi-Cal contractual adjustments, and county indigent program  
37 contractual adjustments, other contractual adjustments, bad debts,  
38 charity care, restricted donations and subsidies for indigents,  
39 support for clinical teaching, teaching allowances, and other  
40 deductions.

1 ~~(11)~~  
2 (13) Total capital expenditures.

3 ~~(12)~~  
4 (14) Total net fixed assets.

5 ~~(13)~~  
6 (15) Total number of inpatient days, outpatient visits, *excluding*  
7 *observation services, observation services*, and discharges by  
8 payer, including Medicare, Medi-Cal, county indigent programs,  
9 other third parties, self-pay, charity, and other payers.

10 ~~(14)~~  
11 (16) Total net patient revenues by payer including Medicare,  
12 Medi-Cal, county indigent programs, other third parties, and other  
13 payers.

14 ~~(15)~~  
15 (17) Other operating revenue.

16 ~~(16)~~  
17 (18) Nonoperating revenue net of nonoperating expenses.

18 (b) Hospitals reporting pursuant to subdivision (d) of Section  
19 128760 may provide the items in paragraphs ~~(7), (8), (9), (10),~~  
20 ~~(14), (15), and (16)~~ (8), (9), (10), (12), (16), (17), and (18) of  
21 subdivision (a) on a group basis, as described in subdivision (d)  
22 of Section 128760.

23 (c) The office shall make available at cost, to any person, a hard  
24 copy of any hospital report made pursuant to this section and in  
25 addition to hard copies, shall make available at cost, a computer  
26 tape of all reports made pursuant to this section within 105 days  
27 of the end of every calendar quarter.

28 (d) The office shall adopt by regulation guidelines for the  
29 identification, assessment, and reporting of charity care services.  
30 In establishing the guidelines, the office shall consider the  
31 principles and practices recommended by professional health care  
32 industry accounting associations for differentiating between charity  
33 services and bad debts. The office shall further conduct the onsite  
34 validations of health facility accounting and reporting procedures  
35 and records as are necessary to assure that reported data are  
36 consistent with regulatory guidelines.

37 ~~This section shall become operative January 1, 1992.~~

38 SEC. 3. No reimbursement is required by this act pursuant to  
39 Section 6 of Article XIII B of the California Constitution because  
40 the only costs that may be incurred by a local agency or school

1 district will be incurred because this act creates a new crime or  
2 infraction, eliminates a crime or infraction, or changes the penalty  
3 for a crime or infraction, within the meaning of Section 17556 of  
4 the Government Code, or changes the definition of a crime within  
5 the meaning of Section 6 of Article XIII B of the California  
6 Constitution.

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