

## Survival of Rural Healthcare

Steven Fontaine, CEO, Penn Highlands Healthcare

### Overview:

- Good morning. It is an honor to be here today to speak on behalf of the rural hospitals across the State of Pennsylvania.
- Our hospitals, especially those in rural communities, are the life blood of those local communities and local economies, because in many cases we are the largest employers. We play a significant role in attracting businesses and industry to spur economic development and without hospitals, many small towns would not exist. Having a hospital nearby is a sign of community vitality.
- According to the Hospital and Healthsystem Association of Pennsylvania, In Fiscal Year 2022, Penn Highlands Healthcare and its 8 rural hospitals had a total economic benefit of \$1.8 Billion to the Pennsylvania Economy and the rural communities served by Penn Highlands. Over 6,200 employees derive their income from our facilities. We support individuals and families with good jobs and in many cases health insurance benefits.
- Can you imagine how a closure of one or more of these facilities would affect the local residents?
- I am here today to tell you that rural hospitals are on the brink of disaster without increased support from our State and Federal Governments.
- Over 100 rural hospitals in the U.S. have closed over the past decade, (6 in Pennsylvania) and more than 600 additional rural hospitals — 30% of all rural hospitals in the country — are at risk of closing in the near future.
- With each closure, Pennsylvanians lose access to essential services and communities lose a central component of their local communities. Rural hospital closures are associated with higher mortality rates and closures typically affect per capita income and unemployment rates in their regions.
- The primary cause of rural hospital closures is that payments from health insurance plans are inadequate to sustain essential services. Current State and Federal programs don't solve the problems facing small rural hospitals, and some proposed changes would make the problems worse. Rural hospitals need both adequate payments *and* a better payment system in order to provide essential healthcare services for their communities.

- As the population continues to age, especially in rural communities across Pennsylvania, reimbursement for healthcare services continues to shift to governmental payors – Medicare and Medicaid - which typically pay 10-15% below cost.
  
- Typically 70% or more of the patients we serve have either Medicare or Medicaid coverage. Thus, by default, rural hospitals rely heavily on commercial payor contracts to subsidize lack of reimbursement from governmental payors. This equation is simply not sustainable!
  
- More than one-third of the rural hospitals that remain open have been losing money. Over 700 rural hospitals lost money in 2022, and over 400 had losses greater than 5%.
  - As it relates to Pa, 43% of our hospitals had a negative margin in 2022
  
- Aside from a shift to governmental payors and financial constraints, the CV-19 pandemic setback financially many hospitals in the US and in Pa:
  
- The cost of treating a COVID-19 patient admitted to a hospital rose by 26% over the first two years of the pandemic, more than five times the rate of medical inflation during that same time.
  
- Healthcare supply costs spiked during the COVID-19 crisis.
  - Between 2019 and 2022:
    - Labor costs grew 25%
    - Pharmaceuticals increased by 21%
    - Supplies increased by 18%
    - Professional services increased by 16%

While these costs moderated in 2022, they continue to be above the norm; in particular, growth in labor cost remains high.

- Small rural hospitals experienced greater financial losses on patient services during the pandemic, but they were able to continue operating because of the special federal

pandemic aid that was available. However, this assistance was only temporary, and losses on patient services are likely to worsen in the future due to continued increases in costs.

The following are other challenges facing rural hospitals:

#### Workforce

- COVID-19 accelerated the staffing crisis that was looming across the county. Burnout and retirements have created huge gaps in the number of nurses and doctors available across Pennsylvania.
- According to the Association of American Medical Colleges:
  - The U.S. faces a physician shortage of between 54k and 139k doctors by 2033
  - More than two of every five currently active physicians in the U.S. will be 65 or older within the next decade
  - It is estimated that by 2030 Pennsylvania will lack more than 1,000 primary care physicians.
- The Nursing shortage is even more staggering:
  - Hospitals in Pa. rural communities report average vacancy rates of:
    - 26% for registered nurses
    - 28% for nursing support staff
  - By 2025 we expect a gap of 200k to 450k registered nurses across the United States
  - The PA shortage of nurses is the worst in the nation with a current deficit of 20,000 positions
- Physician and Nurse Shortages will only compound the access issues that patients are currently experiencing in rural communities.
- The need to use Locum or Interim Staff has in most cases doubled or tripled the cost of labor in our hospitals. Post COVID Penn Highlands Healthcare is spending approximately \$25 million more for labor to keep our facilities open. Reimbursement has not caught with this increase.
- Record setting inflation triggered extreme pressure on wage rates, forcing hospitals to increase wages with little or no increase in reimbursement.

Rural hospitals are also facing regulatory burdens which hinder growth or just daily operations. For example,

- **Current Department of Health regulations are outdated, some not being reviewed and/or updated since the 1990s.**
  - **These regulations do not take into consideration the advanced technology that is available today for patients.**
    - **For example, if we were able to better utilize telemedicine services for inpatient care with the use of telemedicine doctors, we could alleviate the burden of locums and hospitalist expenses**
  
- **Mandated Staffing Minimums and Staffing Ratios in our Long-term Care Facilities or nursing homes have caused facilities to cap or reduce their in-house census causing most facilities to experience negative margins. The ripple effect is it has made discharging patients to post-acute facilities more difficult, leaving patients to wait for beds in Emergency Rooms and hallways in hospital across the country.**
  - **The new CMS Guidelines for Staffing Long-Term Care Facilities is even more stringent.**
  
- **Increased Payor Regulatory Pressures have taken nursing staff away from the bedside and into non-direct patient care roles in our hospitals.**
  - **At PHH we employ 30 Doctors, Nurses and Case Managers working daily to contest clinical denials by the payors.**
  - **There is no standardization or consistency in payor regulations in Pennsylvania – hard to navigate rules which change often, payor denials for services already rendered occur quite often which require substantial time and effort by our staff to “chase the dollars”.**
  
- **Also, there are multiple state agencies we must seek approval from to add a needed service which is burdensome and time consuming.**

**And as it relates to Transportation:**

- **Transportation is limited or non-existent in rural communities:**
  - **Every year, around 3.6 million people in the United States miss their medical appointments because of transportation issues**

- Rural areas do not have consistent transportation services.
- Missed medical/dental appointments and the ability to secure basic grocery and pharmacy staples are a reality in rural communities.
- In response, PHH is purchasing a fleet of vehicles to provide the necessary non-emergency transportation needed in our service area

While I've shared with you a broad overview of Pa. healthcare, I also want to be the one to suggest some potential solutions to give Rural Hospitals a Fighting Chance:

- **Investment in School Partnerships**
  - We need to develop additional educational opportunities within the current higher education system to encourage careers in nursing and other allied health professions (Phlebotomist, Radiology Technicians, Physical Therapist, Surgical Technicians, etc.)
  - PHH has numerous school partnerships across its footprint – primarily with community colleges and technical schools where we provide clinical instructors to expand the class room size along with paying the majority of the student's tuition
- **Investment in Community Partnerships**
  - Increased access to basic health care services
  - Education on prevention and healthy lifestyles
  - Transportation initiatives
  - Investment in infrastructure like broadband
- **Increase reimbursement for the provision of Behavior Health Services and ensure there are no so much regulatory burden to open new services or mental health facilities.**
- **Changes in payments and less regulatory burden from all payers will be needed to eliminate losses at small rural hospitals.**
- **Introduce legislation in Pennsylvania, like Tennessee and Arkansas enacted recently, to prohibit Drug Manufactures from deciding who they will sell 340B eligible medications to. Cuts in 340B revenue are dramatically hurting rural hospitals across the State.**

**In Summary,**

**We need your help to save our Rural Pennsylvania Hospitals through:**  
**Legislated Initiatives**  
**Modernization of Regulations**

**Investment in Education, Transportation and Technology  
And Appropriate (increased) funding for Medical Services Provided**

**Earlier I challenged all of us to imagine how a closure of one or more of our rural hospitals would affect the local residents in that region. I can sum it up in one word..... Devastating.**

**Thank you for allowing me to be a part of this hearing today. I am happy to answer any questions you may have.**