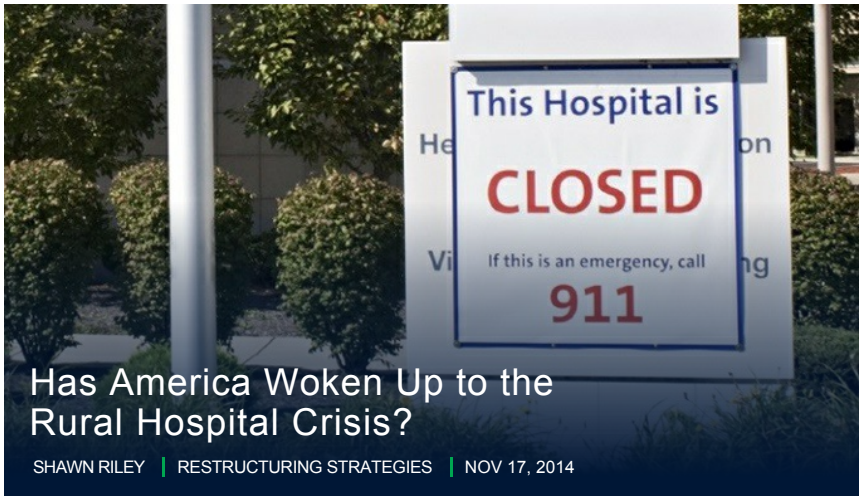

Has America Woken Up to the Rural Hospital Crisis?

SHAWN RILEY | RESTRUCTURING STRATEGIES | NOV 17, 2014

A recent article in USA Today summarized many of the struggles that rural hospitals are experiencing, focusing on several hospitals in the South. The article offers no new insights, but its appearance indicates that the problems confronting rural hospitals have now entered the mainstream media's consciousness.

Among the problems facing rural hospitals identified in the article are payment/reimbursement challenges. Because so many of their patients utilize Medicaid or Medicare, rural hospitals are hurt by the low reimbursement rates those programs provide. Rural hospitals also tend to service more uninsured patients than their larger, urban counterparts. Finally, rural hospitals are typically in low population areas, limiting their overall utilization and creating challenges for physician and employee recruitment.

Changes resulting from the Affordable Care Act have added to the burdens on rural hospitals. For example, the ACA's focus on patient outcomes and the penalties it imposes for readmissions have been particularly difficult for rural hospitals. They treat the sickest and poorest patients, who often have neither the knowledge nor the resources to chose healthy lifestyles or maintain rehabilitative programs. As a result, rural hospitals have experienced high rates of readmission, resulting in penalties that have reduced their revenue.

Similarly, the ACA's reduction in federal government reimbursement for uninsured care has hit small rural hospitals particularly hard. For many rural hospitals, a large portion of their patients have no insurance. The uninsured/charity care reimbursement was the only thing keeping them afloat. The ACA cut the reimbursement in the expectation that the expansion in Medicaid coverage would replace the lost dollars. That has not happened.

The solutions for rural hospital problems – some of which are identified in the *USA Today* article – are neither obvious nor easy. Broadly speaking, they fall into one of two categories: macro or systemic solutions; and micro or individualized solutions. In the former category are increases in reimbursement rates, state subsidies and policies that favor rural hospitals. In the latter category, the fixes depend on the circumstances of the individual hospital; one size does not fit all. Examples include affiliation or merger with a larger, more stable institution. For many rural hospitals, this option is not available because of the remoteness of their locations or because potential affiliation partners have already linked up with other rural hospitals. Some hospitals have decided to sell themselves, but that option requires a willing buyer. A third option is to restructure and/or recapitalize. That, however, is generally available only to those hospitals that have strong performance but are burdened with too much debt.

The decision of "what" to do is just the first half of the equation; the second is "how?" Should the hospital hire an advisor to "shop" itself? Should it try to raise money? Should it use the federal bankruptcy process? The answers to these questions are critical in determining whether or not a hospital survives the challenges it faces. And our experience tells us that the sooner the questions are answered – the sooner the challenges are confronted and addressed – the greater the likelihood of success. Waiting for the macro solutions from the federal government or a particular state is no answer. The solution has to be developed and implemented by the hospital itself.

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