DEPARTMENT
OF HEALTH
HEALTH ECONOMICS PROGRAM

Distressed Minnesota Community Hospitals, 2019

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An earlier brief by the Health Economics Program about Minnesota community hospitals sought to describe trends in utilization and finances in the years immediately preceding the COVID-19 pandemic.[1] We found, in aggregate, Minnesota hospitals appeared financially healthy, with some facilities reporting double-digit operating margins. But we also noted that there was wide variability across the state and type of hospitals, with some facilities exhibiting operational losses.

Recognizing the potential adverse impact the COVID-19 pandemic had on hospitals – including reductions in elective procedures and outpatient visits, new costs for personal protective equipment, and treatment costs for a new infectious disease – we wanted to take a more in-depth look at hospitals with less robust financial health. In this brief we explore ways to identify financially distressed hospitals and the characteristics of hospitals in Minnesota that may be considered financially distressed.

Today's hospitals are complex, often vertically and horizontally integrated organizations. Their chargemasters list thousands of products, procedures, and services, for which hospitals negotiate reimbursements with numerous private and public payers. Hospitals typically also hold substantial physical assets (buildings, equipment), make significant capital investments, and attract philanthropic giving. Assessing these institutions' financial health is challenging. We used two separate approaches to quantifying hospitals' financial health: 1) a focus on operating margins only; [2] and 2) a focus that includes both operating margins and net assets.[3]

Some studies have linked low operating margins to higher likelihood of closures, mergers or acquisitions, or the conversion to a Critical Access Hospital (CAH) as well as lower quality of care.[4] Table 1 displays the number of Minnesota hospitals experiencing negative operating margins in at least four the past eight years at either the hospital or institutional level, our first measure of hospital financial distress.[5]

Table 1: Hospital Financial Distress by Operating Margin

Hospital Type	Number of hospitals	Hospitals with 4+ years of negative operating margin (hospital level) (2012-2019)	Percent of hospitals (hospital level)	Hospitals with 4+ years of negative operating margin (institutional level)[1] (2012-2019)	Percent of hospitals (institutional level)
CAH[2]	77	16	21%	29	38%
Non CAH[2]	51	13	25%	9	18%
Urban[3]	37	4	11%	3	8%
Rural[3]	91	25	27%	35	38%
Independent[4]	38	11	29%	17	45%
Affiliated[4]	90	18	20%	21	23%
All Hospitals	**128**	**29**	**23%**	**38**	**30%**

[1] Operating margin taken at the institutional level, which includes nursing homes, clinics, home health, hospice, and ambulance services.

[2] A Critical Access Hospital (CAH) is a federal designation for a rural hospital that meets certain criteria.

[3] Hospital rural/urban classification is based on hospital location in relation to Rural-Urban Commuting Areas. Isolated rural, small rural town, and large rural city are combined under the "Rural" category.

[4] Affiliated refers to a hospital that is part of a larger medical care system of more than one hospital, as opposed to an independent hospital.

Source: Minnesota Department of Health, Health Economics Program (HEP) analysis of Hospital Annual Reports.

Of Minnesota's 128 hospitals in 2019, 29 had negative operating margins for four or more years from 2012 to 2019 (listed in Table 3). These hospitals are more likely to be rural and operate independently of a health care system. As rural hospitals, they have a lower patient population, greater challenges obtaining and retaining a skilled workforce, and a larger percentage of patients with Medicare, which affects reimbursements for care. At the same time, they play a key economic role in their communities by providing local employment and medical services that encourage population retention and growth. These positive impacts, as well as access to health care services the hospital provides, are removed when a hospital closes, regardless of the reasons behind closure. Once closed, a hospital is unlikely to reopen.

When financial information is reviewed at the institutional level, which includes nursing homes, clinics, home health, hospice, and ambulance services, the number of hospitals with four or more years of negative margins from 2012 to 2019 increases to 38 (listed in Table 4). These hospitals are also more likely to be rural and independent as well as more likely to be CAHs. The differences between operating margins at the hospital and institutional levels point at the cost of providing these additional services; hospitals may be the best option to maintain access to services such as home health, ambulance, and hospice services in rural communities, regardless of cost.

Beyond a hospital's operating margin, there are other indicators of use available in a hospital's financial reporting. For example, the Flex Monitoring Team[6] identified a number of signals that may indicate a hospital is experiencing financial distress, and the second analysis of financial distress uses four of those signals:

1. Four or more years of negative operating margins in the last eight years;
2. Net asset decline in the last four years;

3. Negative net assets in the most recent year; and
4. Negative cash flow margin in the most recent year.

Table 2 indicate how many of these signals a hospital has.

Table 2: Hospital Distress by Financial Distress Signals

Hospital Type	Number of hospitals	Hospitals with 1 or more financial distress signals[1,2]	Hospitals with 2 or more financial distress signals[1,2]	Hospitals with 3 or more financial distress signals[1,2]	Hospitals with 4 financial distress signals[1,2]
CAH[3]	77	32	12	5	2
Non CAH[3]	51	17	8	1	0
Urban[4]	37	7	3	1	0
Rural[4]	91	42	17	5	2
Independent[5]	38	20	9	2	1
Affiliated[5]	90	29	11	4	1
All Hospitals	**128**	**49**	**20**	**6**	**2[6]**

[1] Operating margin taken at the hospital level.

[2] Financial distress signals are identified using the Flex Monitoring Team's model, which includes: 4 or more years of negative operating margins between 2012-2019, net asset decline from 2016 to 2019, negative net assets in the most recent year (2019), negative cash flow margin in the most recent year (2019).

[3] A Critical Access Hospital (CAH) is a federal designation for a rural hospital that meets certain criteria.

[4] Hospital rural/urban classification is based on hospital location in relation to Rural-Urban Commuting Areas. Isolated rural, small rural town, and large rural city are combined under the “Rural” category.

[5] Affiliated refers to a hospital that is part of a larger medical care system of more than one hospital, as opposed to an independent hospital.

[6]One of these hospitals was closed at the end of 2019.

Source: Minnesota Department of Health, Health Economics Program (HEP) analysis of Hospital Annual Reports.

It is significant to note that 38 percent of Minnesota’s hospitals for the period of 2012 to 2019 transmitted at least one financial distress signal. Given that financial distress is more characteristic of CAHs, rural facilities, and independent hospitals, this potentially raises access concerns as the state moved into the COVID-19 pandemic. The role of the pandemic on hospital financials across types of hospitals is not yet well understood and more complete data are just beginning to materialize.

It will be important to watch whether and in what cases the pandemic helped boost hospitals’ financials (through increased inpatient use by COVID patients or patients with other acute needs, or through grants to help cover the cost of additional personal protective equipment and some staffing costs), or whether the limitations on elective procedures and outpatient clinic visits may have cause more financial pain. Future analysis will need to take into account the financial hardships incurred as well as the increased federally funding made available.

Endnotes

[1] This brief can be found at: https://www.health.state.mn.us/data/economics/docs/hosptrendsbrief2021.pdf

[2] Operating margins are calculated as operating revenue minus operating expenses divided by the operating revenue.

[3] Net assets include the value of a hospitals' assets (real estate, stock investments, donations, revenue) minus liabilities (mortgages and other loans, expenses).

[4] See for example: Ly, D. P., Jha, A. K., & Epstein, A. M. (2011). The association between hospital margins, quality of care, and closure or other change in operating status. Journal of general internal medicine, 26(11), 1291–1296. https://doi.org/10.1007/s11606-011-1815-5

[5] Negative operating margins means the cost of the care provided by the hospital is more than the hospital received in payments for that care. Hospital level data includes the hospital and associated outpatient clinics that have been approved for outpatient billing by Medicare, while Institutional level data also includes nursing homes, other clinics, home health, hospice, and ambulance services associated with the hospital.

[6] The Flex Monitoring Team is a consortium of researchers from the Universities of Minnesota, North Carolina at Chapel Hill, and Southern Maine that evaluates the Medicare Rural Hospital Flexibility Grant Program.

Appendix 1: Hospitals with Four or More Years of Negative Operating Margins, 2012-2019

Table 3: At the Hospital Level

Hospital Name	County	Urban/Rural[1]	CAH Status[2]	Affiliation Status[3]
Carris Health - Rice Memorial Hospital	Kandiyohi	Rural	Non CAH	Affiliated
CCM Health	Chippewa	Rural	CAH	Independent
District One Hospital	Rice	Rural	Non CAH	Affiliated
Essentia Health - Sandstone	Pine	Rural	CAH	Affiliated
Essentia Health Northern Pines	St. Louis	Rural	CAH	Affiliated
Fairview Range	St. Louis	Rural	Non CAH	Affiliated
Grand Itasca Clinic and Hospital	Itasca	Rural	Non CAH	Affiliated
Hennepin Healthcare	Hennepin	Urban	Non CAH	Independent
Lake Region Healthcare	Otter Tail	Rural	Non CAH	Independent
Madelia Community Hospital Inc.	Watonwan	Rural	CAH	Independent
Mahnomen Health Center	Mahnomen	Rural	CAH	Affiliated
Mayo Clinic Health System - Albert Lea and Austin	Freeborn	Rural	Non CAH	Affiliated
Mayo Clinic Health System in Fairmont	Martin	Rural	Non CAH	Affiliated
Mayo Clinic Health System in Red Wing	Goodhue	Rural	Non CAH	Affiliated
Mayo Clinic Health System in Springfield	Brown	Rural	CAH	Affiliated
Mercy Hospital	Carlton	Rural	CAH	Independent
Mille Lacs Health System	Mille Lacs	Rural	CAH	Independent
Murray County Medical Center	Murray	Rural	CAH	Affiliated
North Valley Health Center	Marshall	Rural	CAH	Independent
Pipestone County Medical Center	Pipestone	Rural	CAH	Affiliated
Prairie Ridge Hospital and Health Services	Grant	Rural	CAH	Affiliated
Rainy Lake Medical Center	Koochiching	Rural	CAH	Independent
Ridgeview Medical Center	Carver	Urban	Non CAH	Affiliated
River's Edge Hospital & Clinic	Nicollet	Urban	CAH	Independent
Saint Joseph's Hospital	Ramsey	Urban	Non CAH	Affiliated
Sanford Worthington Medical Center	Nobles	Rural	Non CAH	Affiliated
Sleepy Eye Medical Center	Brown	Rural	CAH	Independent
Swift County-Benson Health Services	Swift	Rural	CAH	Affiliated
Winona Health Services	Winona	Rural	Non CAH	Independent

Source: Minnesota Department of Health, Health Economics Program (HEP) analysis of Hospital Annual Reports.

[1] Hospital rural/urban classification is based on hospital location in relation to Rural-Urban Commuting Areas. Isolated rural, small rural town, and large rural city are combined under the "Rural" category.

[2] A Critical Access Hospital (CAH) is a federal designation for a rural hospital that meets certain criteria.

[3] Affiliated refers to a hospital that is part of a larger medical care system of more than one hospital, as opposed to an independent hospital.

Hospital-specific statistics are available online: https://www.health.state.mn.us/data/economics/chartbook/index.html

Table 4: At the Institutional Level

Hospital Name	County	Urban/Rural[1]	CAH Status[2]	Affiliation Status[3]
Avera Tyler	Lincoln	Rural	CAH	Affiliated
Bigfork Valley Hospital	Itasca	Rural	CAH	Independent
Carris Health - Rice Memorial Hospital	Kandiyohi	Rural	Non CAH	Affiliated
CCM Health	Chippewa	Rural	CAH	Independent
Community Memorial Hospital	Carlton	Rural	CAH	Independent
Cook Hospital & Care Center	St. Louis	Rural	CAH	Independent
Essentia Health - Graceville	Big Stone	Rural	CAH	Affiliated
Essentia Health - Sandstone	Pine	Rural	CAH	Affiliated
Glacial Ridge Health System	Pope	Rural	CAH	Independent
Grand Itasca Clinic and Hospital	Itasca	Rural	Non CAH	Affiliated
Granite Falls Health	Yellow Medicine	Rural	CAH	Independent
Hennepin Healthcare	Hennepin	Urban	Non CAH	Independent
Kittson Memorial Healthcare Center	Kittson	Rural	CAH	Independent
Lake Region Healthcare	Otter Tail	Rural	Non CAH	Independent
Madelia Community Hospital Inc.	Watonwan	Rural	CAH	Independent
Madison Hospital	Lac Qui Parle	Rural	CAH	Independent
Mahnomen Health Center	Mahnoman	Rural	CAH	Affiliated
Mayo Clinic Health System - Albert Lea and Austin	Freeborn	Rural	Non CAH	Affiliated
Mayo Clinic Health System in Fairmont	Martin	Rural	Non CAH	Affiliated
Mayo Clinic Health System in New Prague	Scott	Urban	CAH	Affiliated
Mayo Clinic Health System in Red Wing	Goodhue	Rural	Non CAH	Affiliated
Mayo Clinic Health System in Springfield	Brown	Rural	CAH	Affiliated
Mercy Hospital	Carlton	Rural	CAH	Independent
Mille Lacs Health System	Mille Lacs	Rural	CAH	Independent
Murray County Medical Center	Murray	Rural	CAH	Affiliated
North Memorial Health Hospital	Hennepin	Urban	Non CAH	Affiliated
North Shore Health	Cook	Rural	CAH	Independent
North Valley Health Center	Marshall	Rural	CAH	Independent
Perham Health	Otter Tail	Rural	CAH	Affiliated
Pipestone County Medical Center	Pipestone	Rural	CAH	Affiliated
Prairie Ridge Hospital and Health Services	Grant	Rural	CAH	Affiliated
RiverView Health	Polk	Rural	CAH	Independent
Sanford Canby Medical Center	Yellow Medicine	Rural	CAH	Affiliated
Sanford Tracy Medical Center	Lyon	Rural	CAH	Affiliated
Sanford Westbrook Medical Center	Cottonwood	Rural	CAH	Affiliated

Hospital Name	County	Urban/Rural[1]	CAH Status[2]	Affiliation Status[3]
Sanford Worthington Medical Center	Nobles	Rural	Non CAH	Affiliated
Sleepy Eye Medical Center	Brown	Rural	CAH	Independent
Swift County-Benson Health Services	Swift	Rural	CAH	Affiliated

Source: Minnesota Department of Health, Health Economics Program (HEP) analysis of Hospital Annual Reports.
[1] Hospital rural/urban classification is based on hospital location in relation to Rural-Urban Commuting Areas. Isolated rural, small rural town, and large rural city are combined under the "Rural" category.
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Hospital-specific statistics are available online: https://www.health.state.mn.us/data/economics/chartbook/index.html

Appendix 2: Hospitals with Three or More Financial Distress Signals

Hospital Name	County	Urban/Rural[1]	CAH Status[2]	Affiliation Status[3]
Mayo Clinic Health System in Springfield	Brown	Rural	CAH	Affiliated
Murray County Medical Center	Murray	Rural	CAH	Affiliated
North Valley Health Center	Marshall	Rural	CAH	Independent
Prairie Ridge Hospital and Health Services	Grant	Rural	CAH	Affiliated
Saint Joseph's Hospital	Ramsey	Urban	Non CAH	Affiliated
Sleepy Eye Medical Center	Brown	Rural	CAH	Independent

Source: Minnesota Department of Health, Health Economics Program (HEP) analysis of Hospital Annual Reports.
[1] Hospital rural/urban classification is based on hospital location in relation to Rural-Urban Commuting Areas. Isolated rural, small rural town, and large rural city are combined under the "Rural" category.
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