STATE OF ARKANSAS
Department of Finance and Administration

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September 2, 2022

Senator Jonathan Dismang, Co-Chair
Representative Michelle Gray, Co-Chair
Performance Evaluation & Expenditure Review Committee
Arkansas Legislative Council
State Capitol Building
Little Rock, AR 72201

RE: FY 23 Restricted Reserve Fund Transfer Recommendation

Dear Co-Chairs:

Pursuant to Ark. Code Ann. § 19-5-1263 and Act 226 of 2022, as Chief Fiscal Officer of the State, I am recommending the transfer of Restricted Reserve Funds from the Majority Vote Various Improvements and Projects Set-Aside of the Restricted Reserve Fund for Fiscal Year 2023 to the Department of Human Services – Medical Services Division in the amount of $5,000,000

Sincerely,

Larry W. Walther
Cabinet Secretary

LWW

Attachment(s)

ARKANSAS DEPARTMENT OF HUMAN SERVICES

Office of the Secretary
P.O. Box 1437, Slot S201
Little Rock, AR 72203-1437
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BA: 0710
FC: 897
Fund: PWD8600
CC: NEW
CB 9/1/2022

August 31, 2022

Larry Walther, Secretary
Arkansas Department of Finance and Administration
1509 West 7th Street, Room 401
Little Rock, Arkansas 72201

Dear Secretary Walther:

On behalf of the Department of Human Services (DHS), I respectfully request a release of Restricted Reserve Funds to the DHS Division of Medical Services (DMS) for a grant to the Arkansas Rural Health Partnership (ARHP). The purpose of this grant is to assist rural hospitals over the next two years to address critical facets of organizational viability and sustainability to significantly decrease the risk of closure. Additional details regarding the intended use of the funds are described in the attached proposal.

DHS is requesting funds in the amount of $5,000,000 for a grant to ARHP to fund the attached proposal. The full amount will be distributed by DMS to ARHP, and ARHP will distribute funds to rural hospitals to implement the programs described in the grant proposal. The program will address critical immediate & intermediate organizational and financial needs of Arkansas rural hospitals to ensure continuity of services in a post COVID-19 context.

DHS also requests Various Temporary Appropriation in the amount of $5,000,000 in fund PWD 8600 on behalf of DMS. This appropriation request will allow DMS to facilitate payment of this grant to ARHP.

Thank you for your assistance in this matter. Please feel free to call me if you need additional information to support this request.

Sincerely,

Cindy Gillespie
Secretary

CG:jmw

ARKANSAS RURAL HEALTH PARTNERSHIP

Arkansas Rural Hospital Advance Proposal

Purpose of Requested Funds: *Arkansas Rural Hospital Advance* is a two-year program that will be made available to eligible rural hospitals to address critical facets of organizational viability and sustainability to significantly decrease the risk of closure. Focus areas will include clinical service delivery, reimbursement and cash flow, organizational architecture and management, and strategic direction of the organization. Participating rural hospitals will benefit from: 1) a customized operational & market assessment conducted by experts utilizing best-practices and benchmark data, 2) tailored recommendations for implementation, and 3) regular follow-up and individualized support from ARHP Rural Hospital Advance team (rural hospital C-suite career veterans) to ensure successful achievement of selected recommendations. Program Eligibility & Requirements: Must be a hospital with a rural designation (per CMS) in Arkansas. A hospital is not required to be a member of ARHP to be eligible. Participating rural hospitals will be required to send operational data to ARHP for analysis & evaluation (including benchmarking the facility against other rural and like-sized facilities).

Key Roles & Responsibilities of Applicant: The Arkansas Rural Health Partnership (ARHP) will serve as the liaison and key facilitator between participating rural hospitals, content experts (consultants), and relevant legislative committees to ensure the: 1) seamless implementation of proposed program activities, 2) collection of data from hospitals, 3) achievement of intended results, and 4) facilitation of communication between all parties. ARHP responsibilities include: 1) coordinate assessments (conducted by consultants), 2) conduct regular follow-up meetings with hospital leaders regarding implementation plans, and 3) provide frequent reports to identified legislators/committee(s) to ensure that proposed program activities are achieving intended impact.

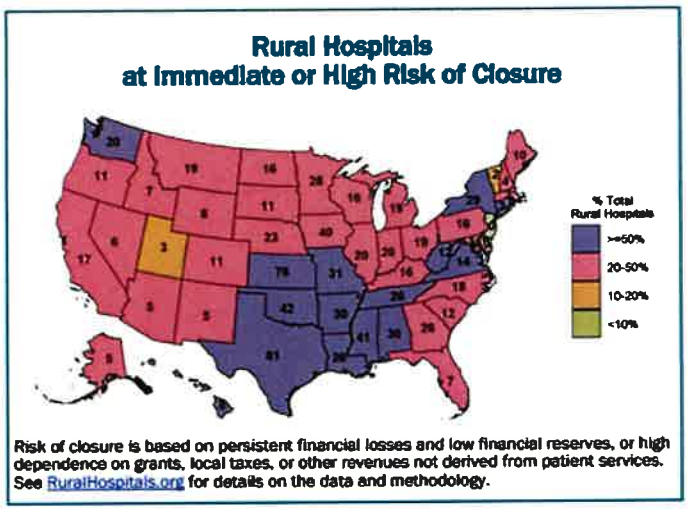
Intended Impact: The program will address critical immediate & intermediate organizational and financial needs of Arkansas rural hospitals to ensure continuity of services in a post COVID-19 context. Coordinated efforts will assist participating rural hospitals to move beyond the constant threat of closure due to financial burden and organizational capacity weaknesses. In time, rural hospitals fully engaging in the program will benefit from in-depth health system enhancements, improved financial position, increased operational efficiencies, enhanced workforce recruitment & retention, and integrated, whole person care (including social determinants of health and behavioral health services).

Number of Locations Served: 52 rural hospitals throughout Arkansas

Requested Amount: $5 million over two years

ARKANSAS RURAL HEALTH PARTNERSHIP

Need: More than 800 rural hospitals – 40% of all rural hospitals in the country – are at risk of closing in the near future. According to the Center for Healthcare Quality and Payment Reform, 61% of the rural hospitals in Arkansas have been identified as at risk of closure. Most of these are small rural hospitals that provide not only emergency care, inpatient care, and outpatient services, but also primary care, rehabilitation, and long- term care services for their communities. Moreover, most of the hospitals are in isolated communities where loss of the hospital could severely limit access to health care services. More than 20 million people could be directly harmed if these hospitals close, and people in all parts of the country could be affected through the impacts on workers in agriculture and other industries. These funds will be used in a long-term program to strengthen the rural hospitals, increase workforce in both numbers and quality, and improve the leadership skills that combined may prevent hospital closures and improve care in Arkansas.



According to the American Hospital Association, hospitals and health systems have faced massive financial losses throughout the COVID-19 pandemic and continue to experience staffing shortages, rising expenses, and supply chain issues. Hospitals and health systems have been efficient in keeping up with COVID- 19 surges since the onset of the pandemic. Facilities have expanded treatment capacity, hired additional staff, and maintained patient access to critical services and programs, AHA said. However, as a result, hospitals have experienced billions of dollars in losses. According to AHA, more than a third of hospitals have negative operating margins. (See Attachment A for cost analysis for Arkansas Rural Health Partnership hospitals conducted in August 2022).

At the same time, the COVID-19 pandemic has revealed significant inequities in the availability of healthcare services and resources in rural Arkansas, as well as gaps in the availability of adequate mental and behavioral health services. And the pandemic itself has exacerbated both the rural inequities and the need for additional capacity in mental and behavioral health services.

The drivers for the current overall hospital crisis are:

- **Cost Reimbursement**. Hospitals are not being paid enough to cover the cost of delivering care to patients. Inadequate payments from both public and private health plans along with the inability of patients to pay their bills continues to be one of the concerns for hospitals.

- **Staffing Costs.** According to data from the Bureau of Labor Statistics, hospital employment is down approximately 100,000 from pre-pandemic levels. At the same time, hospital labor expenses per patient through 2021 were 19.1% higher than pre-pandemic levels in 2019. Labor costs account for more than 50% of hospitals' total expenses. Therefore, even a slight increase in these costs can have significant impacts on a hospital's total expenses and operating margins. Driving the growth in labor expenses has been an increased reliance on contract staff, especially contract nurses, who are integral members of the clinical team. In 2019, hospitals spent a median of 4.7% of their total nurse labor expenses for contract travel nurses, which skyrocketed to a median of 38.6% in January 2022. Contract staff agencies have increased the rates they bill hospitals significantly. In fact, hourly billing rates that hospitals pay staffing firms for contract employees increased 213% compared to pre-pandemic levels and led to a 62% profit margin for contract staff agencies, i.e., the difference between what the firms charge hospitals and what the firms pay the contract employees.

- **Supply/Drug Costs**. Drug expenses also increased dramatically, 36.9% on per patient bases, compared to pre-pandemic levels. As a share of non-labor expenses, drug expenses grew from approximately 8.2% in January 2019 to 10.6% in January 2022. Medical supply expenses grew 20.6% through the end of 2021, compared to pre-pandemic levels. When focusing on hospital departments most directly involved in care for COVID-19 patients – ICUs and respiratory care departments – medical supply expenses increased 31.5% and 22.3%, respectively, from pre- pandemic levels.

This is exacerbated in small, independent rural hospitals because:

- Unlike most larger hospitals and those that are part of a larger health system that have been experiencing financial losses, independent rural hospitals have reached the point where they no longer have sufficient financial reserves available to cover their losses and no method of paying their staff or creditors.
- Private health plans pay small rural hospitals less than they pay larger hospitals for the

same services, and Medicare Advantage plans appear to be among the worst payers at small rural hospitals. Most small rural hospitals operate one or more rural health clinics, and the low payments for primary care services from private payers are a major cause of losses at these hospitals.

- Independent rural hospitals experience high costs for supplies, equipment, and contracted services because they do not have the volume to benefit from cost savings that are offered to larger healthcare systems.

- There is a higher cost to recruiting and retaining healthcare providers, administration, and leadership to rural areas. Rural communities do not offer all of the amenities of larger metropolitan areas. Without the volume of this workforce in rural communities, hospitals are having to pay the cost to keep the current workforce from leaving and, at the same time, pay staffing agencies the costs to ensure retention of services.

Applicant Description: Nobody understands the needs of rural hospitals like the leaders that work in rural hospitals. The Arkansas Rural Health Partnership (ARHP) is a non-profit organization of 17 rural hospitals, two Federally Qualified Health Centers, and three medical schools where member rural hospitals are committed to remain autonomous for as long as they can. These hospitals understand that by partnering together and combining forces there is leverage in numbers giving them an advantage; especially when it comes to cutting operational costs, increasing access to healthcare services, improving quality of care, and addressing the needs of their patients and residents through population health initiatives, assistance services, and mental and behavioral health services and shared programs. ARHP offers its members multiple advantages; like purchasing power and discounts, contract negotiation, medical training, information technology, recruitment, and most recently, the formation of a Clinically Integrated Network. The organization works at keeping resources in rural areas and contracts with its member hospitals for services to support partnering hospitals. The organization is pursuing lowering costs for employee benefits, workers' compensation, and medical malpractice insurance, along with business office procedures. This would be done in partnership with members only or possibly partnering with a larger health system. ARHP priorities have an emphasis on finding new approaches and organizational frameworks to improve health outcomes, control costs, increase the rural workforce, and improve population health. Education, financial assistance, and an experienced, educated, and competent support system to pursue the changes needed to survive would prevent our rural hospitals from closing. ARHP administration and leadership have vast knowledge and experience as healthcare administrators, hospital financial professionals, recognized rural health experts, grant writers, fundraisers in place. The organization is ready to provide immediate support to rural hospitals across the state.