



From distress to success

The role of states in supporting hospital systems

By **David Betts**, MBA, Principal, Deloitte Consulting LLP and
Keara Klinepeter, Senior Manager, Deloitte Consulting LLP

Introduction

The acute phase of the COVID-19 pandemic placed significant financial burdens on hospitals. Hospitals confronted increased patient intake, resource scarcity, and unprecedented operational challenges including staffing shortages and increased staffing costs. In response, the federal and state governments took active measures to identify the stressors affecting hospitals, and subsequently provided tailored funding to aid in limiting the impact of these challenges. Now, states are contending with the post-pandemic strain facing hospitals, which is resulting in service line and facility closures along with other significant challenges such as staffing shortages. While significant COVID-19 aid was given to hospitals, underlying financial and operational risks predated the pandemic and were only exacerbated by the incredible strain these events put on a system that was already unstable in many ways. These experiences underline the opportunity for states to deploy innovative approaches to assist in providing a stable system of care across their states.

Hospital financial landscape evolution

Before the COVID-19 pandemic, health care workers, hospital executives, and policymakers observed there were systemic financial challenges in the hospital community. In response, the federal government provided potential solutions such as alternative payment models through the Center for Medicare & Medicaid Innovation, value-based payments in Medicare, and other strategies aimed at creating more financial resiliency in the hospital community. As well, some states leveraged their Medicaid programs to provide enhanced reimbursements, provided payment parity for telemedicine, or employed other state-specific solutions. Despite these efforts, hospitals went into COVID-19 in a precarious financial position.

During the COVID-19 pandemic, federal and state governments used advanced analytics and scenario planning to allocate historic temporary funding to address immediate, lifesaving needs. This funding was used to prevent hospitals from becoming overwhelmed by increasing available staff, staff testing, and personal protective equipment, and opening surge facilities. Federal, state, and local governments looked at state-, regional-, and facility-level data to assess where the surge was occurring and what resources were available in those communities to allocate scarce resources where they were needed most. In many states,

this strategic allocation of scarce resources preserved access to lifesaving care for COVID and non-COVID patients during the greatest public health crisis in a century.

However, while significant funding was provided to hospitals and health systems during the pandemic, those funds could not be used to make up operational deficits or offset unprecedented cost increases that existed before the pandemic. This funding could only be used to combat the immediate challenge facing hospitals: COVID-19. Therefore, the systemic financial issues hospitals and health systems experienced prior to COVID-19 still exist today and are worsening rapidly.

The use of an analytical and data-driven approach to allocating scarce resources to hospitals and health systems during COVID-19 is one tool that state leaders may consider continuing to use today. Many state legislatures are currently allocating “emergency” funding to hospitals and health systems to preserve access to care. Maintaining an analytical approach enables states to simulate potential future scenarios, examine their associated risks and consequences, and define the strategic options available for decision-makers.¹

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State leadership considerations

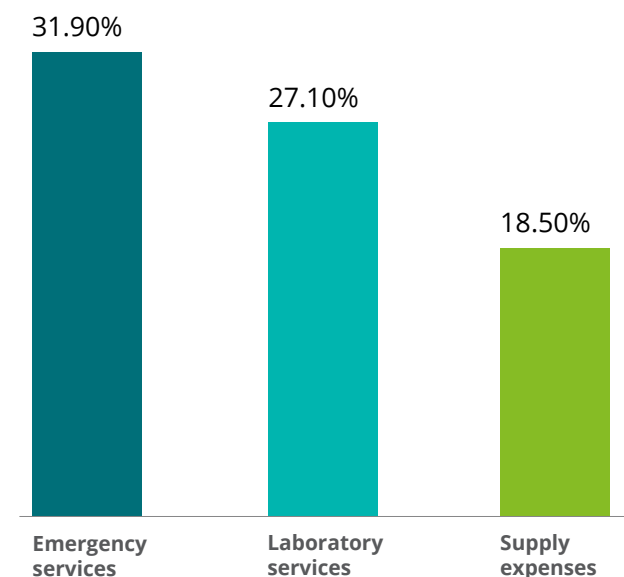
In some states, state leaders are increasing their understanding and role in addressing systemic hospital financial resiliency challenges, especially in the context of the heightened challenges in a post-pandemic era.

Today, states such as California are recognizing the distress that the hospital community is facing and allocating additional funding to manage the increased burden on their services, cover the costs of expanded operations, and strengthen their capacity for future health crises.² New Mexico is leveraging \$1.3 billion of federal Medicaid matching funds to “increase financial stability for hospitals across the state and will favor New Mexico’s rural hospitals, several of which are at risk of imminent closure.” New Mexico also passed Senate Bill 15 in 2024, which gives the Office of Superintendent of Insurance authority to review mergers. Acquisitions and other changes in ownership of hospitals might affect the affordability, quality, and availability of hospital care statewide.³

These significant short-term financial needs are driven by the cost increases the industry has been experiencing.

As demonstrated in figure 1, the costs of services during the pandemic increased per patient significantly. Despite the observed increases in hospital costs, Medicare reimbursements are not keeping up with this increase.

Figure 1: Increase in per patient costs from 2019 to 2022



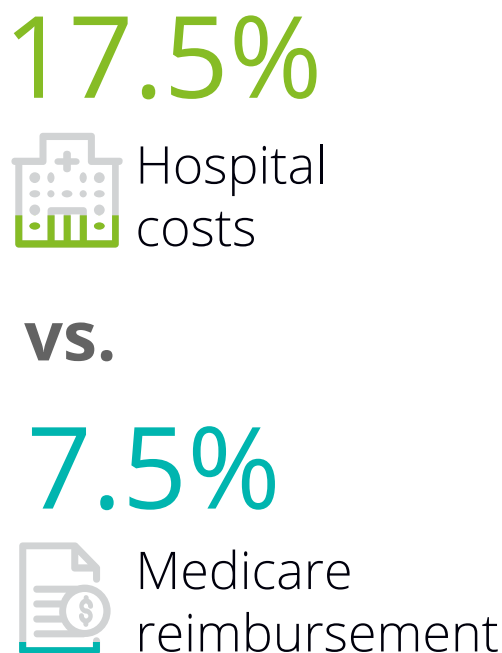
Data sourced from the American Hospital Association: Cost of Caring

Figure 2 shows that total hospital costs increased by 17.5% from 2019 to 2022 while Medicare reimbursements only increased by 7.5%. This significant increase in costs can lead to financial strains for the hospital communities, and state leaders can play a role in alleviating the burden of this strain.

States can leverage data analytics and coordinated platforms to better visualize the risks in the sector, and better understand the impact that different solutions may have on hospital operations.⁴ Scenario planning can also be an effective tool to prepare for future challenges and demonstrate the need for financial resilience.

State leaders may consider that the hospital community is at a crucial moment, and their analysis and intervention is required to preserve access to care, jobs, and economic vitality in the shortterm. Longterm, deeper thinking, modeling, and decisioning is required to shift the underlying payment and delivery mechanisms that created this challenge prior to COVID-19 to create sustainable solutions.

Figure 2: Hospital costs compared to Medicare reimbursements from 2019 to 2022



Data sourced from the American Hospital Association: Cost of Caring

Potential solutions, success stories, and case studies

States can use these quantitative approaches to understanding the drivers of financial distress for hospitals to craft short-term legislative and budgetary solutions. There were successful examples of this during COVID-19, and states are continuing to implement these solutions, as the financial challenges hospitals face grow.

For example, states like Florida have implemented programs such as a revolving loan program for the implementation of innovative solutions.⁵ This program, supported by an appropriation of \$75 million in nonrecurring general revenue for loans and \$1 million general revenue for administrative support of a newly created Health Care Innovation Council, demonstrates how states are utilizing funds to drive innovation in health care to combat systemic issues.

Further north, New York has dedicated \$20 billion in a multi-year investment to build a “resilient health care system.” To do so, Governor Kathy Hochul assembled the New York State Commission on the Future of Health Care to develop and publish evidence-based and strategic recommendations for the state’s health care system. The Commission seeks to address challenges like workforce shortages, payer optimization, how to leverage technological advancements and more.⁶

The goal for the US health care system is to ensure sustainable financial resilience, while also expanding and preserving access to quality care for all individuals, even in the face of routine operational challenges or large-scale health crises.

Conclusion

The response to the COVID-19 pandemic highlighted the critical importance of strategic financial support for hospitals and health systems. While significant funding was allocated to address immediate challenges, it is imperative that states recognize that the underlying systemic financial issues in the health care sector predated the pandemic and persist today. State leaders may continue leveraging data-driven approaches, scenario planning, and robust engagement with the hospital community to allocate resources effectively and advocate for sustainable solutions.

Evaluating the success of initiatives from COVID-19 programs can offer valuable insights into the immediate impact and effectiveness of such programs. Moreover, initiatives like Florida’s revolving loan program show how states can innovate and drive change in health care delivery. As we navigate the post-pandemic landscape, it’s clear that a connected effort is needed to ensure the financial resilience of our health care systems while preserving access to quality care for all, regardless of the challenges faced.

Acknowledgments

Addakin Thomas

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Endnotes

1. [Deloitte Government Insights: How Governments Can Navigate a Disrupted World](#)
2. [Financial Support Coming for Distressed Community Hospitals Across California](#)
3. [Legislation to leverage billions of dollars in funding and boost oversight at New Mexico hospitals passed by House and Senate](#)
4. [Deloitte Government Insights: How Governments Can Navigate a Disrupted World](#)
5. [Live Healthy Plan to Grow Florida's Health Care Workforce](#)
6. [Governor Hochul Announces Launch of New Commission on the Future of Health Care](#)



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