Texas Hospital Association
2022 Fellows Class

Contract Labor Marketplace Study
Capstone Project
Project Charter / Proposal
June 30, 2022

Executive Sponsor	John Hawkins, THA President/CEO
Project and Organizing Purpose	The purpose of the Contract Labor Marketplace Study is to assess the impact of agency/contract labor on hospitals. This topic area should look at identifying solutions to assess this impact.
Scope	Create a proposal that will put a staffing mechanism in place (labor source and funding source) to help mitigate the cost burden on the Target Class of Hospitals.
Problem Statement	Labor costs are on an unstainable path, exacerbated by exorbitant contract labor costs that hospitals increasing rely on to maintain minimum safe staffing levels. The pandemic has only made the problem worse, as 55% of rural hospitals are at risk of closure. Based on CMS cost report data, contract labor costs increased from x% in FY20 to y% in FY21. In FY22, the costs of contract labor continue to increase (based on NFP systems' financial statements). Reliable public policy can be used to reduce the amount of contract agency costs and protect hospitals' operational margins that allow for provision of safety net services.
Approach	1. **Develop Baseline data** (gather evidence) – sources: 1) qualitative – interview, including hospital-specific commentary regarding contract labor costs; 2) quantitative – from publicly available documents including cost reports, bond disclosures, and financial statements. 2. **Categorize by license type** (nursing, therapists, etc.) if available 3. **Analyze contract labor as % of total labor costs,** total op expense, and total hours (if available) 4. **Analyze difference** between employed labor costs and the agency/contract labor cost 5. **Segment the Target Classes of Hospitals** – Tier 1) high risk (those which are most acutely impacted and unable to absorb higher contract labor costs = example small rural hospitals or small non-profit systems) – this is the target class; Tier 2) medium risk (those which have large supplemental funding sources or those which have scale/payer leverage to be more able to absorb cost increases); Tier 3) lower risk (those which are less dependent on supplemental funding, have scale/payer leverage, or have a richer payer mix – more able to absorb cost increases) 6. **How much of a premium** is agency/contract vs employed? 7. **Turnover Rate**. Attempt to quantify that employed (FT/PT) workers will voluntarily leave employed status in order to take advantage of higher pay in a contract environment. 8. **Recruitment** – how to 1) incentivize onboarding staff and 2) disincentivize staff from leaving and going to contract status (e.g. career pathing for caregivers) 9. **Interview Caregiver leadership** –What are the pain points? 10. **Develop the pitch** – see DRAFT/EXAMPLE (p. 3) This is the 'hook' – As a result of the Nursing shortage, hospitals rely on exorbitant agency nursing costs; imperiling hospital finances. 55% of rural hospitals at risk of closure; 20 rural hospitals closed since 2010 – creates a negative domino effect on volume overflow to unprepared urban hospitals… The Capstone Project process will include all stakeholders – subject matter experts (SME's) such as direct stakeholders (nursing leadership, HR, finance personnel), trade association (THA), and legislative leaders. Current state information will be captured by cost reports, financial statements, interviews with SME's, and other publicly-available information such as seminar materials and related articles. Market data and national benchmarks will guide the discussion on 1–3-year priorities and metrics.

Outcomes

1. **Establish a shared understanding of identifying solutions** to lessen the impact of agency/contract labor on hospitals. These products will include:
   a. Value proposition based on Problem Statement
   b. Market review
   c. Recommendations
2. **Develop/confirm 1-to-3 year list of priorities and measures** that support the problem statement and recommendations.
3. Develop other goals and initiatives that support the problem statement and recommendations. **Main goal**: attempt to create a mechanism that mitigates the factors driving the wage bidding war.
4. **Potential solution** – Provide a supplemental funding payment to Tier 1/high risk hospitals to offset the cost of contract nursing. Strong criteria (means and needs testing) need to be developed. Tie funding to real-world experience. Subsidy to hospital would only apply to nurses with at least X years' verified experience and X% of hospital's nurses must have X years' verified experience – eliminates new nursing grads from going straight from school to a contract agency. For example, 1) Magnet designation – 75% of nurses must have at least a bachelor's degree, and 2) airline pilots have to have 1200 hours (per FAA reg) to fly commercial airlines, so the State could treat the funding program like a grant, where the funding will be merit and needs tested. Future renewals of the funding program (grant) will draw on other existing needs and merit-based programs (such as MAAP).

Project Milestones

Milestone	Date
Project Kick-off	June 3, 2022
Interim Team Meetings	6/20, 6/28, 7/11, 7/26, 8/8, 8/22
Group Module Meetings	June 2/3, Sept. 1/2, Nov 3/4
Submit Completed Capstone Charter to THA	July 1, 2022
Capstone Paper Outline - draft	July 26, 2022
Capstone Paper and Market Analysis - draft	August 12, 2022
Final draft of Capstone Paper and Market Analysis	October 21, 2022
Formal Presentation Due to THA Leadership	January 27, 2023

Participants / Stakeholders
KEY:, I-Interview, S-Stakeholder, M-Meeting, C-Capstone Team

Name		Title/Rôle	Participation
Karen	Kendrick	VP Clinical Initiatives, THA	S
Amy	Eskew	President, THT. Sr. Director of Strategic Projects, THA	S
Marc	Biehl	Team Member, THA 2022 Fellows Class	C
Herron	Mitchell	Team Member, THA 2022 Fellows Class	C
Veronica	Villarreal	Team Member, THA 2022 Fellows Class	C
Richard	Schirmer	THA Finance Dept	I
Other	Clinical	Other Clinical Leaders (TBD)	

DRAFT/EXAMPLE

Pitch to Stakeholders

1. What is our "hook"?
2. What are our main points?
3. What is our big takeaway?
4. What is our call-to-action?

---

1. **What is our "hook"? – start with a question.**

"Does your community struggle with finding enough clinical staff to fill open positions at your local hospitals?"

Show statistics around contract labor, open position rate, etc.

As of January 2022, 81 of 146 rural hospital in Texas, or 55% are at immediate or high risk of closure
(source: THA/CHQPR)

"XX rural hospitals have shut down since 2010 and another 81 are at risk of closing due to precarious financial situation and difficulty in finding qualified staff. Are you willing to see more rural hospitals close?"

"it (hospital closures or service closure) will create a negative domino effect – placing stress on urban hospitals due to unplanned surges in patient volume"

2. **What are our main points? – rule of 3's**

"There is not enough bench strength in-house, so we rely on contract labor to fill the gaps. However, the costs from contract labor settle into the overall labor cost structure like a cancer, that causes a permanent increase in labor costs."

"If we invest in clinical education, in public schools and colleges, more students will enter nursing and therapy positions, and hospitals will then ultimately have less reliance on contract labor."

3. **What is our big takeaway?**

"Our solution is to create a Float Pool that will disincentivize nurses from wanting to leave their hospital to go to a contract agency. But we need more educational funding to create a more level playing field for the small, solo hospitals."

For example, large health systems will have a 'terms and conditions' requirement for new nurses – health system pays for their education but in exchange, the new employee has to agree to work a minimum of 3 years at that health system'.

4. **What is our call to action (what is our ask)?**

*"**If** Texas (state government) provides a State-provided 1) labor pool and 2) supplemental funding for PRN Float pool (temp to permanent), and 3) hospital-provided Float Pool staffing, **then** more hospitals will be able to adequately provision their own inhouse staffing needs, and reduce their reliance on expensive contract labor"*