

Capstone Project: Hospital Financial Stability Executive Summary

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Purpose: Develop plan to create enhanced and more frequent use of Hospital Coops for hospital to collaboratively achieve expense reduction and economies of scale.

Background/Need: Post COVID-19, Texas hospitals find themselves in a precarious economic position. With the rising costs of care (including supplies, labor, and infrastructure), increase in the acuity of patients, decline in patient volumes, and negative margins, Texas hospitals have incurred losses beyond \$3.2 billion, a 30% reduction in total income across the state. Non-profit, rural and smaller “independent” hospitals are experiencing the most risk for closure. A 2022 study from Kaufman Hall reported 26% of Texas rural and smaller hospitals were at risk of closure. These closures and financial struggles lead to fewer hospitals and healthcare options for patients, who then must travel greater distances to obtain care, or are more likely to delay care altogether. The ability for the smaller “independent”, rural, and non-profit hospitals to survive not only impacts patient care, but because many of these hospitals are economic drivers in their communities, whole regions are in turn impacted with job losses and local business reductions.

Plan: To facilitate a reduction in overall expenses and improvement in purchasing leverage for smaller and rural hospitals, we propose the use of Cooperative Agreements Among Hospitals (“Hospital Coops”) as a solution. Much like physicians who come together to negotiate supply pricing rather than joining larger controlled physician groups, hospitals should more frequently utilize available tools to form cooperatives to create buying power and pool resources to reduce costs and achieve economies of scale for expenses that they otherwise cannot achieve as small, independent facilities.

Chapter 314 of the Texas Health and Safety Code, originally passed in 1993, defined cooperative agreements as “an agreement among two or more hospitals for allocation or sharing health care equipment, facilities, personnel or services.” The original legislation was designed to allow for the collaborative negotiation of payer contracts, but such arrangements have historically encountered administrative and other obstacles because of anti-competitive concerns. To date, the Hospital Coops legislation has rarely been used to encourage or allow for cooperatives with a focus on collectively reducing costs and creating economies of scale in the possible areas of supplies, revenue cycle, IT/EMR systems, and labor and staffing. Our proposal would provide the following:

- Education to hospitals to shift the focus of Hospital Coops to leverage opportunity for expense scaling.
- Education for the Attorney General’s office and regulatory authorities on expense focused Hospital Coops (as opposed to Coops focused on reimbursement and payer contract negotiation and consolidation) and lessening of entry barriers.
- Development of a centralized facilitator such as TORCH or THA to take the administrative burden from the hospitals and encourage higher level of hospital participation.
- Legislative support if required.