Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

HOSPITAL CLOSURE: 1993

JUNE GIBBS BROWN
Inspector General

JANUARY 1995
OEI-04-94-00120

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EXECUTIVE SUMMARY

PURPOSE

To describe the extent, characteristics, reasons for, and impact of hospital closure in 1993.

BACKGROUND

The closure of hospitals in recent years has generated public and congressional concern. According to a number of studies, more hospitals are expected to close in coming years. Questions have been raised about the phenomenon of hospital closure, as well as the implications for public policy.

We released a report in May 1989 describing the nationwide phenomenon of hospital closure in 1987. We continued analysis of hospital closure to determine trends and effects of the phenomenon. We issued subsequent reports on hospital closure in 1988, 1989, 1990, 1991 and 1992.

The findings from the previous OIG annual studies were similar. The hospitals that closed were small and had low occupancy rates. When the hospitals closed, few patients were affected. Most could get medical care nearby.

FINDINGS

Our inspection of hospital closure in 1993 produced findings similar to those previously reported for 1987-1992.

- Forty-two general, acute care hospitals closed, continuing a downward trend in the annual number of closures. They were located in 26 States. Eight new general, acute care hospitals opened in 1993, and five hospitals that closed prior to 1993 reopened in 1993.

- Twenty-two of the closed hospitals were rural and 20 were urban.

- Closed hospitals in both rural and urban areas were much smaller than the national averages.

  Rural hospitals that closed had an average size of 31 beds compared to an average of 78 beds for all rural hospitals nationally.

  Urban hospitals that closed had an average size of 75 beds compared to an average of 261 beds for all urban hospitals nationally.

- Occupancy rates for closed rural and urban hospitals were lower than the national averages.

  Rural hospitals that closed had an average occupancy rate of 18 percent compared to an average of 35 percent for all rural hospitals nationally.

  Urban hospitals that closed had an average occupancy rate of 29 percent compared to an average of 54 percent for all urban hospitals nationally.

- For rural hospitals that closed, the average daily census in the year prior to closure was six patients. The urban hospitals that closed had an average daily census of 22 patients.

- Medicare utilization among rural and urban hospitals that closed was slightly higher than national averages.

  In rural areas, the average Medicare utilization among hospitals that closed was 60.4 percent compared to an average of 54.8 percent for all rural hospitals nationally.

  In urban areas, the average Medicare utilization among hospitals that closed was 51.4 percent compared to an average of 47.1 percent for all urban hospitals nationally.

- Medicaid utilization among rural and urban hospitals that closed also differed from national averages.

  In rural areas, the average Medicaid utilization among hospitals that closed was lower than the rural national average (7.5 percent vs. 12.7 percent).

  In urban areas, the average Medicaid utilization among hospitals that closed was slightly higher than the urban national average (14.8 percent vs. 13.6 percent).

- Although residents in a few communities had to travel greater distances for hospital care, all but eight had emergency and inpatient medical care available within 20 miles of a closed hospital.

- At the time of our inspection, 29 of the 42 closed hospital facilities (69 percent) were being used for health-related services. Also, plans were being made for using 6 of the remaining 14 vacant hospitals for health-related services.

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INTRODUCTION

PURPOSE

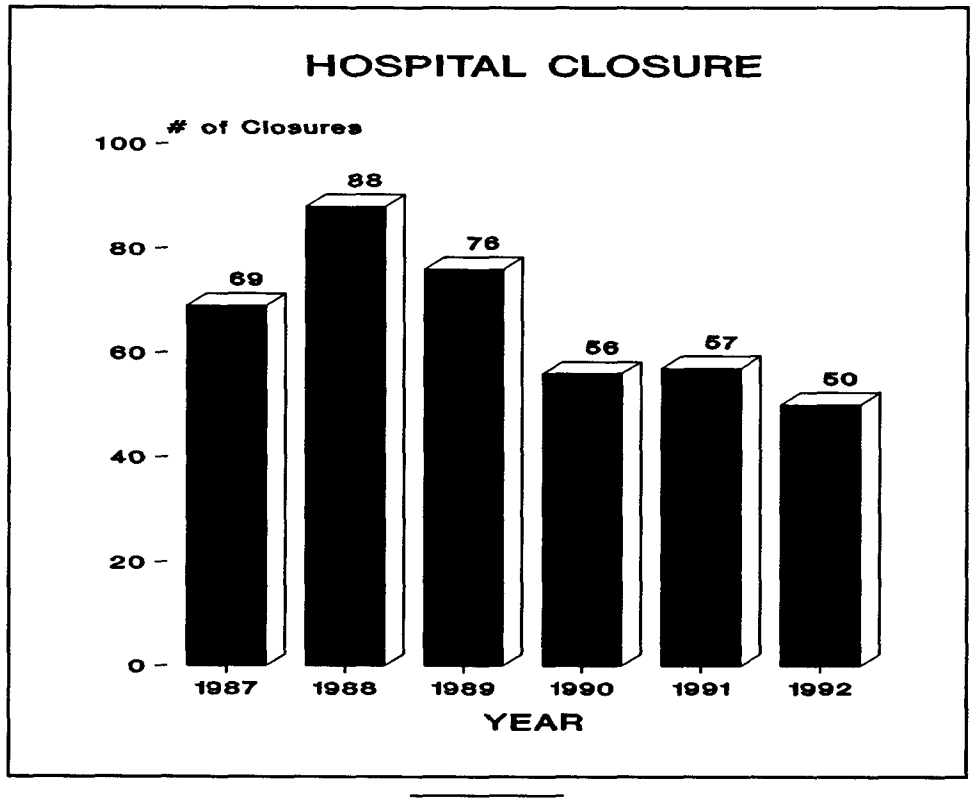
To describe the extent, characteristics, reasons for, and impact of hospital closure in 1993.

BACKGROUND

In the past several years, the closure of general, acute care hospitals has generated public and congressional concern. According to a number of studies, more hospitals are expected to close in coming years. Questions have been raised about the phenomenon of hospital closure in the United States, as well as implications for public policy.

We released a report in May 1989 describing the extent, characteristics and impact of hospital closure in the United States in 1987. That inspection showed that 69 hospitals closed in 1987. Following that inspection, many health policy officials in both the executive and legislative branches of the Federal government encouraged us to continue analysis of the phenomenon. They expressed interest in detecting differences in the (1) rate of hospital closure, (2) characteristics of hospitals that close, and (3) impact of their closing.

Similar inspections of the phenomenon of hospital closure in 1988 through 1992 showed a downward trend in the number of closures.



The findings from the 1987 through 1992 inspections were similar. The hospitals that closed were small and had low occupancy rates. When the hospitals closed, few patients were affected. Most could get medical care nearby.

SCOPE

We examined hospitals that closed in calendar year 1993.

For purposes of this study, the following definitions were used.

Hospital: A facility that provides general, short-term, acute medical and surgical inpatient services.

Closed Hospital: One that stopped providing general, short-term, acute inpatient services in 1993. If a hospital merged with or was sold to another hospital and the physical plant closed for inpatient acute care, it was considered a closure. If a hospital both closed and reopened in 1993, it was not considered a closure.

METHODOLOGY

To determine the extent, reasons for, and impact of hospital closure, we obtained information from State licensing and certification agencies, State health planning agencies, State hospital associations, HCFA data bases, officials associated with closed and nearby hospitals, and local public officials.

We obtained information on the characteristics of all hospitals and those that closed in 1993 from the Hospital Cost Report Information System (HCRIS) maintained by HCFA.

Appendix A describes our methodology in further detail.

We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

FINDINGS

The Inspector General's study of hospitals closed in 1993 showed that:

- Forty-two general, acute care hospitals closed in 1993, continuing a downward trend in the annual number of closures.
- Most hospitals that closed were small and had low occupancy rates.
- When a hospital closed, few patients were affected.
- Although residents of a few communities had to travel greater distances for hospital care, all but eight had emergency and inpatient medical care available within 20 miles of a closed hospital.

While 42 hospitals closed in 1993, 8 new general, acute care hospitals opened, adding 579 beds to the national supply of beds. In addition to the new openings during 1993, 5 hospitals that closed prior to 1993 reopened in 1993, adding another 150 beds.

EXTENT AND CHARACTERISTICS OF CLOSED HOSPITALS

How Many Closed

In 1993, there were 4,927 general, short-term, acute care hospitals in the United States entered on HCFA's data base as participating in the Medicare program. Forty-two hospitals closed in 1993 -- 0.85 percent of all hospitals nationally. Eight fewer hospitals closed in 1993 than in the previous year.

HOSPITALS IN THE U.S.:	4,927
CLOSED IN 1993:	42 (0.85%)

When they closed, the general, acute care inpatient bed supply was reduced by 2,192 beds, or 0.3 percent.

Where Were They

The closed hospitals were located in 26 States. Texas had the greatest number of closures (6), followed by Minnesota (3) and Oklahoma (3). Seven States had 2 closures each and the remaining 16 States had 1 closure each. Appendix B lists the number of hospital closures by State. Appendix C lists the closures by hospital name and location.

About the same percentage of rural hospitals (0.9 percent) and urban hospitals (0.8 percent) closed in 1993.

	RURAL	URBAN
HOSPITALS IN THE U.S.:	2,384	2,543
CLOSED IN 1993:	22 (0.9%)	20 (0.8%)

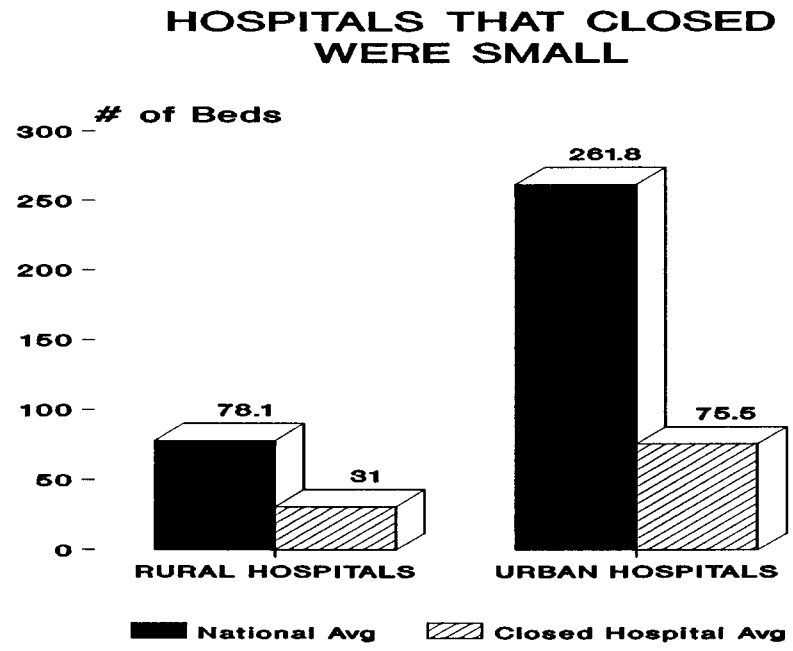
What Were the Closed Hospitals Like

Size: Hospitals that closed in 1993 were small. More than half the hospitals that closed (52 percent) had fewer than 50 beds.

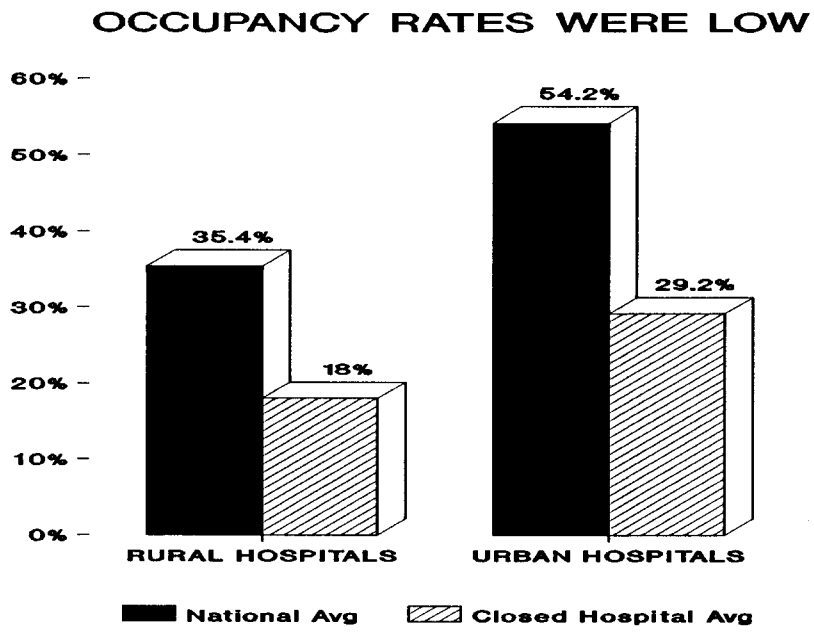
SIZE OF CLOSED HOSPITALS

Number of Beds	Number of Closed Hospitals			Percent
	Rural	Urban	Total	
0 - 29	13	2	15	36
30 - 49	5	2	7	17
50 - 99	4	10	14	33
100 - 199	0	6	6	14
200 - 299	0	0	0	0
300 >	0	0	0	0
TOTALS	22	20	42	100

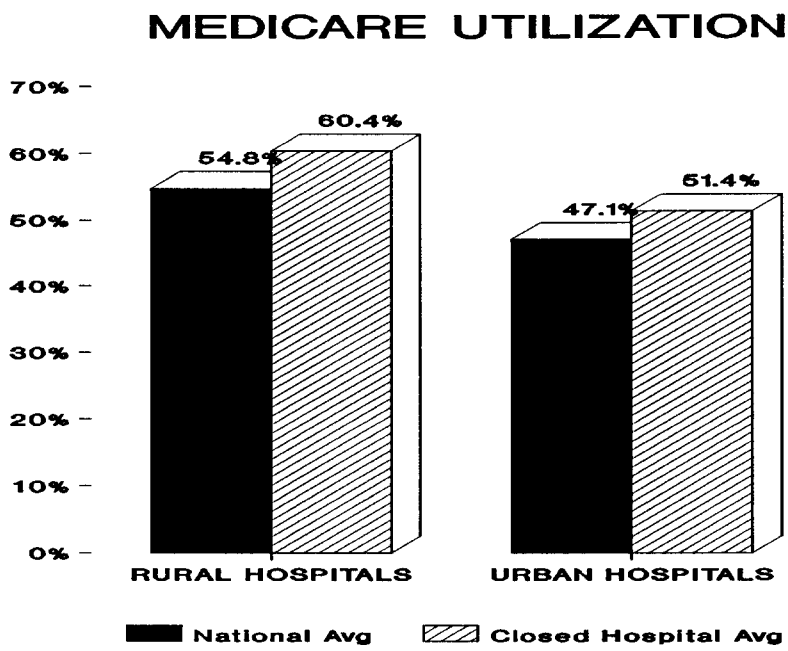
Both the rural and urban hospitals that closed in 1993 were considerably smaller than the average size of rural and urban general, acute care hospitals nationally.



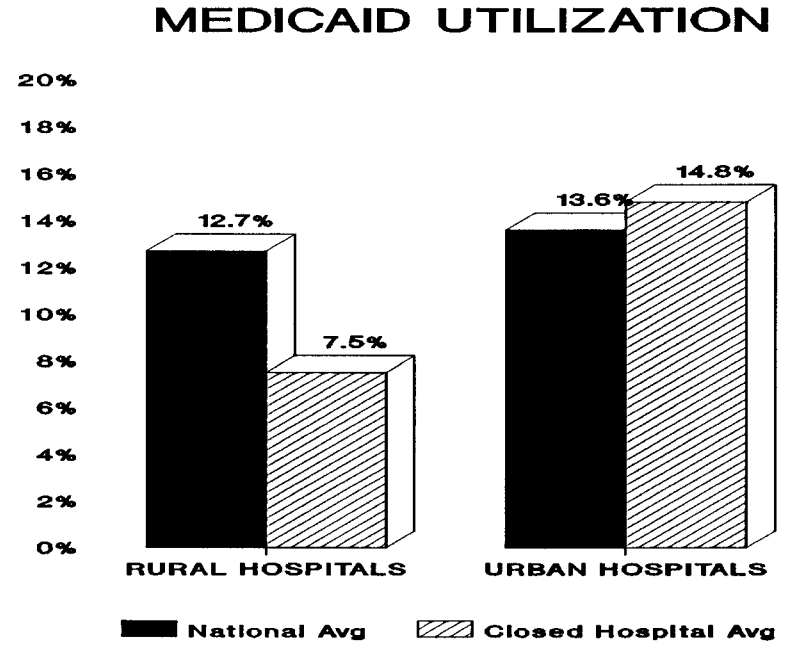
Occupancy: Occupancy rates for closed rural and urban hospitals were considerably lower than the national averages.[1]



Medicare Utilization: In both rural and urban areas, the average Medicare utilization among hospitals that closed was slightly higher than the national averages.[2]

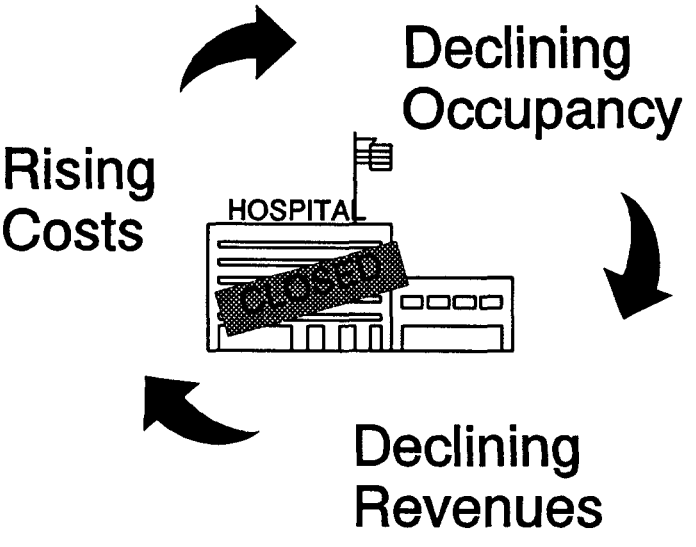


Medicaid Utilization: In rural areas, the average Medicaid utilization among hospitals that closed was lower than the rural national average (7.5 percent vs. 12.7 percent). In urban areas, the average Medicaid utilization among hospitals that closed was slightly higher than the urban national average (14.8 percent vs. 13.6 percent).[3]



REASONS FOR CLOSURE

As in our previous hospital closure studies, the many health care professionals interviewed reported no single reason for hospital closure. Hospitals closed because of the interrelated factors of declining occupancy, lagging revenues, and rising costs. Hospital viability was said to depend on the stability of all three factors. The weakening of one may begin a chain reaction eventually leading to hospital closure.



Although the sequence and combination of these factors were not always the same, generally the scenario was as follows:

The hospital's ***occupancy*** begins to slide because a doctor leaves town or retires, or begins to admit patients to a more modern hospital not far away. Lengths of stay are down because of prospective payment pressures and more effective treatment methods. A new ambulatory surgical center has opened and is also drawing patients away.

While occupancy is declining, the hospital's ***costs*** continue to rise. Competition with other hospitals means that new, high technology equipment is needed. Nurses and technicians are demanding higher salaries - and they are getting them from other hospitals nearby. The building may be deteriorating but the hospital hasn't been able to fully fund its capital reserves for several years.

On the other hand, patient care ***revenue*** is down because of lower occupancy and more uninsured or inadequately insured patients. For those who do have coverage, either

public or private, insurers are holding down their costs and further eroding the hospital's dwindling resources.

Soon the hospital administrator is unable to manage the situation, and the Board examines its options: continue to go deeper into debt; sell the hospital; merge with another; or close.

The smaller the hospital, the less able it is to resist this downward spiral. As noted earlier, the average size of the 42 hospitals that closed in 1993 was only 31 beds for rural hospitals and 75 beds for urban hospitals. They are considerably smaller than the national averages.

IMPACT OF HOSPITAL CLOSURE

In communities where hospitals closed in 1993, we assessed the

- number of patients affected by closure of hospitals,
- availability of inpatient care and emergency medical services, and
- current use of a closed hospital facility.

How Many Patients Were Affected

For rural hospitals that closed in 1993, the average daily census in the year prior to closure was about six patients. The urban hospitals that closed had an average daily census of 22 patients.

WHEN HOSPITALS CLOSED, HOW MANY PATIENTS WERE AFFECTED?

	Rural Hospitals	Urban Hospitals
Average Number of Beds	31.0	75.5
Average Occupancy Rate	x 18.0%	x 29.2%
Average Number of Patients	5.6	22.0

We analyzed Medicare utilization data to determine the number of elderly patients affected by hospital closure in 1993. In rural hospitals that closed, about three Medicare patients were in the hospital on an average day in the year prior to closure. In the urban hospitals that closed, there were about 11 Medicare patients on an average day.

WHEN HOSPITALS CLOSED, HOW MANY MEDICARE PATIENTS WERE AFFECTED?		
	Rural Hospitals	Urban Hospitals
Average Patient Census	5.6	22.0
Average Medicare Utilization Rate	x 60.4%	x 51.4%
Average Number Medicare Patients	3.4	11.3

Are Inpatient Care and Emergency Services Available

We assessed availability of inpatient and emergency medical care in miles from the closed hospitals to the nearest inpatient and emergency facilities.

Inpatient Care: In most communities where a hospital closed in 1993, inpatient hospital care was available nearby.

NEAREST INPATIENT CARE TO CLOSED HOSPITALS		
	NUMBER OF CLOSED HOSPITALS	
DISTANCE	Rural	Urban
Within 3 Miles	0 (0%)	13 (65%)
4-10 Miles	1 (5%)	6 (30%)
11-20 Miles	13 (59%)	1 (5%)
21-30 Miles	6 (27%)	0 (0%)
More than 30 Miles	2 (9%)	0 (0%)
Totals	22 (100%)	20 (100%)

Rural Areas: Residents in 14 of the 22 rural communities (64 percent) where a hospital closed could get inpatient hospital care within 20 miles of the closed hospital.

Residents of 2 rural communities had to travel more than 30 miles for inpatient hospital care:

Rogers City, Michigan	35 miles
Mohall, North Dakota	35 miles

Urban Areas: In all but 1 of the 20 urban communities where a hospital closed in 1993, residents could get inpatient hospital care within 10 miles of the closed hospital. Residents of Dunlap, Tennesse must travel 18 miles to Whitwell for inpatient care. Fourteen of the 20 urban communities (70 percent) where a hospital closed could get inpatient care in the same town.

Emergency Services: When a hospital closed, the community lost not only inpatient beds, but also 24-hour emergency services.

Rural Areas: For residents in 15 of 22 rural communities (68 percent) where hospitals closed in 1993, emergency care facilities were available within 20 miles of the closed hospitals. Residents of 1 community must travel more than 30 miles for 24-hour emergency care. In Rogers City, Michigan the nearest emergency care is located 35 miles away in Alpena. Rogers City does have physicians located there, however.

Urban Areas: In 19 of 20 urban communities (95 percent) where a hospital closed in 1993, emergency care facilities were available within 10 miles of the closed hospital. The remaining community, Dunlap, Tennessee, is within 18 miles of an emergency care facility. Dunlap has physicians located in the community.

NEAREST EMERGENCY SERVICES TO CLOSED HOSPITALS		
	NUMBER OF CLOSED HOSPITALS	
DISTANCE	Rural	Urban
Within 3 Miles	3 (14%)	13 (65%)
4-10 Miles	1 (4.5%)	6 (30%)
11-20 Miles	11 (50%)	1 (5%)
21-30 Miles	6 (27%)	0 (0%)
More than 30 Miles	1 (4.5%)	0 (0%)
Totals	22 (100%)	20 (100%)

What Is the Building Used For Now

At the time of our review, 29 of the 42 closed hospital buildings (69 percent) were being used for health-related services. For example:

- Choctaw Hospital in Butler, Alabama and Eveleth Hospital in Eveleth, Minnesota became nursing homes.

- Indian Health Medical Center in Frederic, Wisconsin is now a drug rehabilitation and counseling clinic.

- Clintonville Community Hospital in Clintonville, Wisconsin became a Rural Health Clinic.

- Union City Memorial Hospital in Union City, Indiana and Oswego City Hospital in Oswego, Kansas were converted to outpatient clinics.

One notable initiative of community involvement when a hospital closes took place when the Central Medical Center Hospital in St. Louis, Missouri became the Penrose Family Support Center. This is a community-based family resource center that provides integrated services to families in one convenient location. The Hospital Association of Metropolitan St. Louis purchased the closed hospital facility and donated the building to the Missouri Department of Social Services.

At the time of our review the Penrose Center had 19 service agencies housed in the closed hospital facility. Some of the services provided are primary health care, drug/alcohol rehabilitation, outpatient day treatment, crisis overnight care, nutritional programs for mothers with children under school age, training and employment for AFDC clients and other area residents, in-home services to assist elderly residents, coordination of a variety of city youth programs, family treatment services for abused and neglected children, and a mentoring program including those in foster care.

Some of the future Penrose occupants include agencies that will provide dialysis treatment, breast and cervical cancer screening survey, respite care for parents of children, child support enforcement services, housing referrals, legal assistance for community residents, case management services to families with mental health problems, on-site child care center, and a congregate activity center for the elderly.

The following chart illustrates the use of all 42 hospital facilities after closure in 1993.

USE OF CLOSED HOSPITALS		
	NUMBER OF FORMER HOSPITALS*	
USE OF BUILDING	Rural	Urban
Specialty Treatment Facility (e.g. chemical dependency)	3	3
Reopened Hospital	0	1
Long Term Care Facility	4	1
Outpatient Services/Clinic	13	6
Offices	5	3
Vacant	4	9
*Duplicate count: In 9 of the 42 former hospitals more than 1 service is now offered.		

At the time of our review, plans were being made to use 6 of the remaining 14 vacant hospitals for health-related services. For example, Sequatchie General Hospital in Dunlap, Tennessee and Dickey County Memorial Hospital in Ellendale, North Dakota will be converted to an assisted elderly living facility. Also, plans were being made for three of the closed facilities to reopen as acute care hospitals.

ENDNOTES

1. Hospital occupancy rate is defined as the actual number of patient days divided by the total bed days available. National occupancy rate is defined as the sum of all hospitals' occupancy rates, divided by the number of hospitals.

2. Average Medicare utilization of closed rural and urban hospitals is defined as the percent of Medicare patient days compared to the total patient days for each hospital, summed and divided by the number of hospitals. National average Medicare utilization is the percent of Medicare utilization of each hospital, summed and divided by the total number of hospitals.

3. Medicaid utilization is calculated in the same way as Medicare utilization.

APPENDIX A

METHODOLOGY

Extent of Hospital Closure

To determine how many hospitals closed in 1993, we surveyed State licensing and certification agencies, State hospital associations and State health planning agencies. We also compiled Health Care Financing Administration (HCFA) data on terminated providers in 1993. When a closed hospital met the study's definition or when there were questions, we contacted officials associated with the closed hospitals, officials associated with hospitals nearest to the closed hospital, and local public officials.

To determine the number of hospitals in the United States, we used the Hospital Cost Report Information System (HCRIS) maintained by HCFA. We included only general, short-term, acute care hospitals under Medicare's Prospective Payment System (PPS) in the universe. There were 4,927 hospitals listed on HCRIS as short-term, acute care, general hospitals for the ninth year of PPS (PPS 9).

Characteristics of Hospital Closure

To analyze characteristics of closed hospitals, we used HCRIS data. Cost reports were not available for 1 of the 42 closed hospitals. For the remaining 41 hospitals, we used the latest pre-closure cost reports. For example, if a hospital closed in May 1992 and its accounting year was on a January-December cycle, we used the provider's January 1, 1992 to December 31, 1992 report.

Reasons for Hospital Closure

We contacted officials of the following organizations to determine the reasons for 1993 hospital closure:

- State hospital associations
- State health planning agencies
- State certification and licensing agencies
- Closed hospitals
- Nearby hospitals to closed hospitals
- Local ambulance companies

Impact of Hospital Closure

We limited our "impact" analysis to the distance from a closed hospital to the nearest still-operating hospitals and to emergency services. We obtained data for our analysis from interviews with the following sources.

- Former hospital administrators, board members, and/or staff of closed hospitals
- Hospital administrators and/or staff at the nearest hospitals
- Local police and health officials
- Local government officials
- State health planning agencies
- State certification and licensing agencies
- State hospital associations

APPENDIX B

1993 HOSPITAL CLOSURES - RANKED BY STATE			
State	Total Closures	Rural Closures	Urban Closures
Texas	6	2	4
Minnesota	3	2	1
Oklahoma	3	2	1
Alabama	2	2	0
California	2	1	1
Michigan	2	1	1
Missouri	2	0	2
Mississippi	2	2	0
North Dakota	2	2	0
Wisconsin	2	2	0
Colorado	1	1	0
Connecticut	1	0	1
Florida	1	0	1
Illinois	1	1	0
Indiana	1	1	0
Kansas	1	1	0
Louisiana	1	1	0
Massachusetts	1	0	1
Maryland	1	0	1
New Mexico	1	0	1
Pennsylvania	1	0	1
Rhode Island	1	0	1
Tennessee	1	0	1
Washington	1	0	1
West Virginia	1	0	1
Wyoming	1	1	0
26 States	**42 Closures**	**22 Rural**	**20 Urban**

APPENDIX C

1993 HOSPITAL CLOSURES BY NAME AND LOCATION			
Hospital Name	City	State	Rural/ Urban
Choctaw Hospital Shoals Community Hospital	Butler	AL	rural
D.E. Jackson Memorial Hospital	Lester	AL	rural
Beverly Hills Medical Center	Los Angeles	CA	urban
West Side Community Hospital District	Newman	CA	rural
St. Joseph Hospital	Del Norte	CO	rural
Park City Hospital	Bridgeport	CT	urban
Doctors Hospital of Tampa	Tampa	FL	urban
Savanna City Hospital	Savanna	IL	rural
Union City Memorial Hospital	Union City	IN	rural
Oswego City Hospital	Oswego	KS	rural
Bienville General Hospital	Arcadia	LA	rural
Amesbury Hospital	Amesbury	MA	urban
Leland Memorial Hospital	Riverdale	MD	urban
Huron Shores Health Center	Rogers City	MI	rural
North Detroit General Hospital	Detroit	MI	urban
Pelican Valley Hospital	Pelican Rapids	MN	rural
Eveleth Hospital	Eveleth	MN	urban
Comfrey Hospital	Comfrey	MN	rural
Deaconess Hospital-North	Normandy	MO	urban
Central Medical Center Hospital	St. Louis	MO	urban
Rush Hospital-Newton	Newton	MS	rural
Fulton Hospital	Fulton	MS	rural
Renville-Bottineau Hospital	Mohall	ND	rural
Dickey County Memorial Hospital	Ellendale	ND	rural
Presbyterian Northside Hospital	Albuquerque	NM	urban
Okarche Memorial Hospital	Okarche	OK	rural
Alfalfa County Hospital	Cherokee	OK	rural
Southwwst Medical Center	Moore	OK	urban
Cooper Hospital	Philadelphia	PA	urban
Cranston General Hospital	Cranston	RI	urban
Sequatchie General Hospital	Dunlap	TN	urban
Lockhart Hospital	Lockhart	TX	rural
Valley Community Hospital	El Paso	TX	urban
Lee Memorial Hospital	Giddings	TX	rural

1993 HOSPITAL CLOSURES BY NAME AND LOCATION (continued)			
Hospital Name	City	State	Rural/ Urban
Dallas Memorial Hospital	Dallas	TX	urban
Tri-City Regional Hospital	Pasadena	TX	urban
Southeastern Methodist Hospital	Dallas	TX	urban
St. Lukes Memorial Hospital	Spokane	WA	urban
Clintonville Community Hospital	Clintonville	WI	rural
Indian Health Medical Center	Frederic	WI	rural
Weirton Osteopathic Hospital	Weirton	WV	urban
South Big Horn County Hospital	Greybull	WY	rural