Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

HOSPITAL CLOSURE: 1996

JUNE GIBBS BROWN
Inspector General

FEBRUARY 1998
OEI-04-97-00110

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EXECUTIVE SUMMARY

PURPOSE

To describe extent, characteristics, reasons for, and impact of hospital closure in 1996.

BACKGROUND

The closure of hospitals in past years had generated public and congressional concern. We released a report in May 1989 describing the nationwide phenomenon of hospital closure in 1987. We issued subsequent annual reports in 1988 through 1995.

The findings from all the OIG studies of hospital closure are 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 1996 produced findings similar to those previously reported for 1987-1995.

- Thirty-seven general, acute care hospitals closed -- 0.7 percent of all hospitals. This is the same number that closed in 1995. Four new general, acute care hospitals opened in 1996, and one hospital that had previously closed reopened in 1996.

- Ten of the closed hospitals were rural and 27 were urban. A higher percentage of urban hospitals (1.0%) closed in 1996 than did rural hospitals (0.4%).

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

  Rural hospitals that closed had an average of 27 beds as compared to an average of 73 beds for all rural hospitals nationally.

  Urban hospitals that closed had an average of 110 beds as compared to an average of 227 beds for all urban hospitals nationally.

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

  Rural hospitals that closed had an average occupancy rate of 16.9 percent as compared to an average of 33.2 percent for all rural hospitals nationally. The average daily census in the year prior to closure was about 5 patients.

Urban hospitals that closed had an average occupancy rate of 34.2 percent as compared to an average of 48.7 percent for all urban hospitals nationally. The average daily census in the year prior to closure was about 38 patients.

- Medicare utilization of closed hospitals on average was lower than the national average.

  In rural areas, the average Medicare utilization among hospitals that closed was 49.2 percent compared to an average of 58 percent for all rural hospitals nationally. About two Medicare patients were in the hospital on an average day in the year prior to closure.

  In urban areas, the average Medicare utilization among hospitals that closed was 46.7 percent compared to an average of 48.4 percent for all urban hospitals nationally. About 18 Medicare patients were in the hospital on an average day in the year prior to closure.

- Medicaid utilization of closed hospitals on average was lower than the national averages.

  In rural areas, the average Medicaid utilization among hospitals that closed was 7.4 percent as compared to an average of 11.9 percent for all hospitals nationally.

  In urban areas, the average Medicaid utilization among hospitals that closed was 11.9 percent as compared to an average of 14 percent for all urban hospitals nationally.

- No single factor or event caused hospitals to close. Hospitals closed because of the interrelated factors of declining occupancy, lagging revenues, and rising costs. Hospital viability depends on the stability of all three factors. The weakening of either one may begin a chain reaction eventually leading to hospital closure.

- Although residents in a few communities had to travel greater distances for hospital care, most had emergency and inpatient medical care available within 10 miles of a closed hospital.

- At the time of our inspection, 27 of the 37 closed hospital facilities were being used -- 23 of them (62 percent) for health-related services. Also, plans were being made to use 6 of the remaining 10 vacant hospitals for health-related services.

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INTRODUCTION

PURPOSE

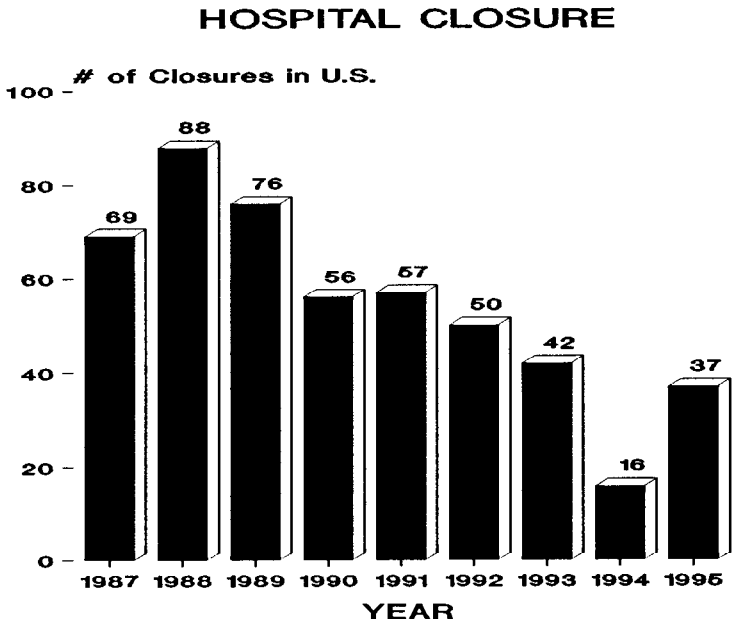
To describe the extent, characteristics, reasons for, and impact of hospital closure in 1996.

BACKGROUND

In the past, closure of general, acute care hospitals had generated public and congressional concern. Numerous questions had been raised about the impact of hospital closure in the United States, as well as implications for public policy. A number of studies predicted that more hospitals would close in coming years.

In response to these concerns, the Office of Inspector General released a report in May 1989 describing the phenomenon of hospital closure during 1987 in the United States. We found that the hospitals that closed were small and their closing did not severely affect access to care. Many users of our 1987 hospital closure study encouraged us to continue year-by-year analyses of the phenomenon to detect differences in the rate of hospital closure, and in the characteristics and circumstances of hospitals that close.

Similar inspections on the phenomenon of hospital closure in 1988 through 1994 showed a downward trend in the number of closures. In 1995, hospital closures more than doubled that of the previous year, but were still less than in any other year since we began this series of reports.



The findings from the 1987 through 1995 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 1996.

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 1996. If a hospital merged with or was sold to another hospital but the physical plant continued to provide inpatient acute care, it was not considered a closure. If a hospital both closed and reopened in 1996, 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 1996 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

Our analysis shows that:

- Thirty-seven general, short-term, acute care hospitals closed in 1996 -- 0.7 percent of all hospitals. This is the same number that closed in 1995.
- Most hospitals that closed were small and had low occupancy rates.
- Although residents of a few communities had to travel greater distances for hospital care, most had emergency and inpatient medical care available within 10 miles of a closed hospital.

EXTENT AND CHARACTERISTICS OF CLOSED HOSPITALS

How Many Closed

In 1996, there were 4,955 general, short-term, acute care hospitals in the United States entered on HCFA's data base as participating in the Medicare program. Thirty-seven hospitals closed in 1996 -- 0.7 percent of all hospitals nationally.

HOSPITALS IN THE U.S.:	**4,955**
CLOSED IN 1996:	**37 (0.7%)**

Closure of the 37 general, acute care hospitals reduced inpatient bed supply by 3,235 beds, or 0.4 percent.

While 37 hospitals closed in 1996, 4 new general, acute care hospitals *opened*, adding 589 beds to the national supply of beds. In addition to the new hospital openings, 1 previously closed hospital *reopened* in 1996, adding another 18 beds.

Where Were They

The closed hospitals were located in 22 States. California had the greatest number of closures (7), followed by Florida (4), and Texas (4). Three States had two 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.

A higher percentage of urban hospitals (1.0%) closed in 1996 than did rural hospitals (0.4%).

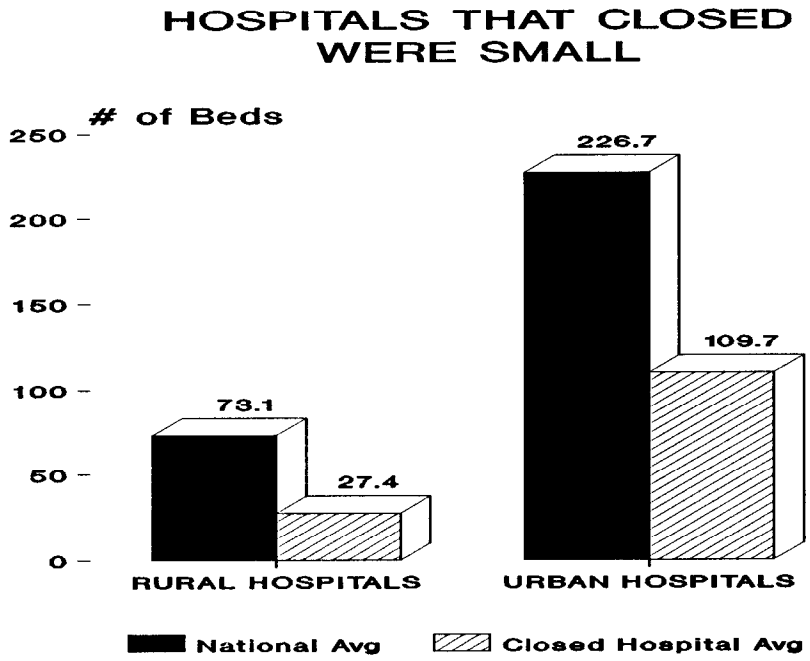
	URBAN	RURAL
HOSPITALS IN THE U.S.:	2,681	2,274
CLOSED IN 1996:	27 (1.0%)	10 (0.4%)

What Were the Closed Hospitals Like

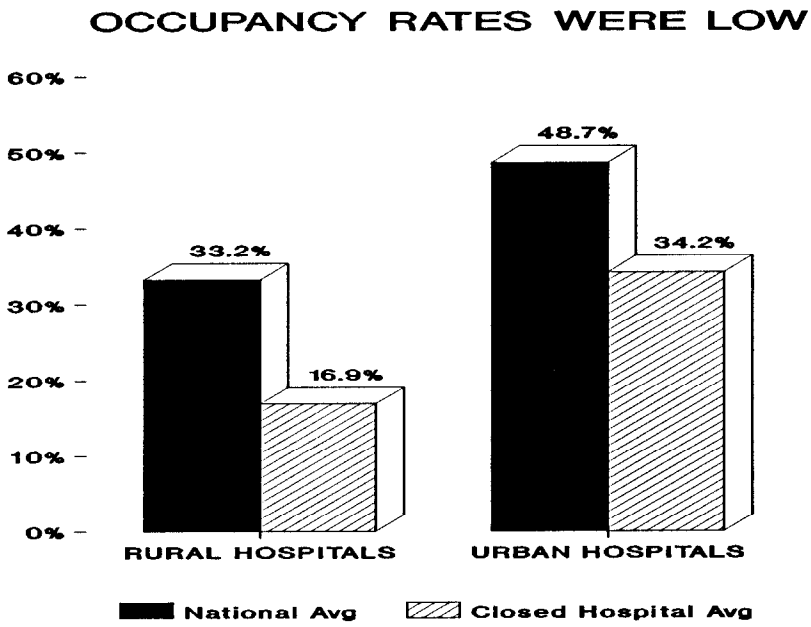
Size: Hospitals that closed in 1996 were small. Almost two-thirds (65%) of the hospitals that closed had 100 beds or fewer. The average number of beds for hospitals nationwide is 156 beds.

SIZE OF CLOSED HOSPITALS			
	Number of Closed Hospitals		
Number of Beds	Rural	Urban	Total
0 - 30	7	2	9 (24.3%)
31 - 50	2	1	3 (8.1%)
51 - 100	1	11	12 (32.5%)
101 - 150	0	5	5 (13.5%)
151 - 200	0	5	5 (13.5%)
201 - 300	0	3	3 (8.1%)
301 >	0	0	0
Totals	10	27	37

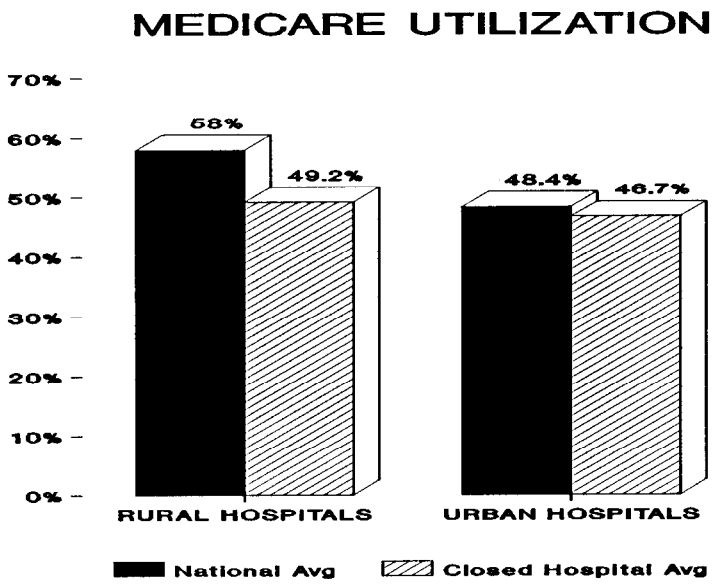
Both the rural and urban hospitals that closed in 1996 were smaller on average than the average size of rural and urban general, acute care hospitals nationally.



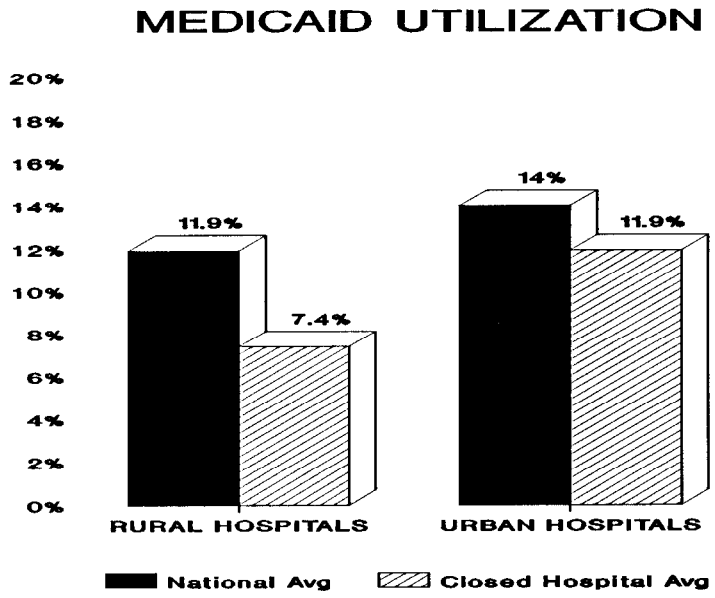
Occupancy: Occupancy rates for closed rural and urban hospitals were lower on average than the national averages.[1]



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

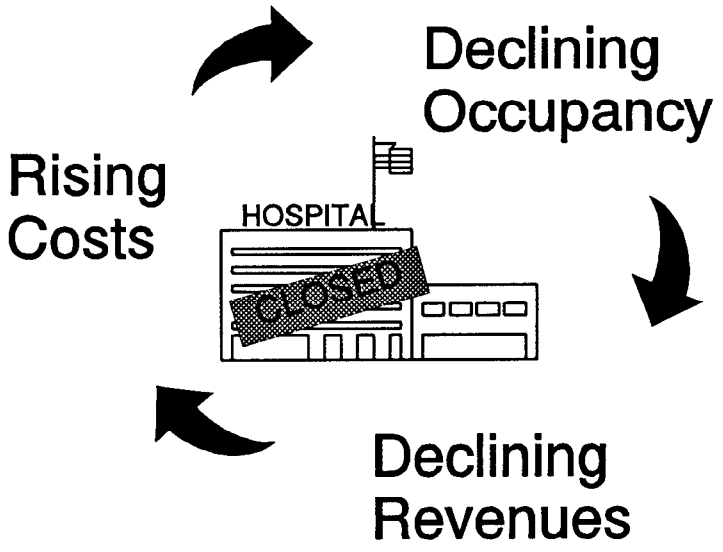


Medicaid Utilization: Generally the average Medicaid utilization among rural hospitals that closed was lower than the national average. There was one exception, however. One of the 10 rural hospitals that closed had an 85 percent Medicaid utilization in the year prior to closure. That hospital re-opened in July 1997 after extensive renovation. Excluding the exception, the chart below compares closed hospitals to the national averages. The average Medicaid utilization for the other nine rural hospitals that closed was 7.4 percent. The average Medicaid utilization among urban hospitals that closed was lower than the national average.[3]



REASONS FOR HOSPITAL 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 any 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 has not 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 37 hospitals that closed in 1996 was only 27 beds for rural hospitals and 110 beds for urban hospitals. They are considerably smaller than the national averages.

IMPACT OF HOSPITAL CLOSURE

In communities where hospitals closed in 1996, we determined the

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

How Many Patients Were Affected

For rural hospitals that closed in 1996, the average daily census in the year prior to closure was about 5 patients. The urban hospitals that closed had an average daily census of about 38 patients.

WHEN HOSPITALS CLOSED, HOW MANY PATIENTS WERE AFFECTED?

	Rural Hospitals	Urban Hospitals
Average Number of Beds	27.4	109.7
Average Occupancy Rate	x 16.9%	x 34.2%
Average Number of Patients	4.6	37.5

We analyzed Medicare utilization data to determine the number of elderly patients affected by hospital closure in 1996. In rural hospitals that closed, about two Medicare patients were in the hospital on an average day in the year prior to closure. In the urban hospitals that closed, about 18 Medicare patients were in the hospital on an average day.

WHEN HOSPITALS CLOSED, HOW MANY MEDICARE PATIENTS WERE AFFECTED?		
	Rural Hospitals	Urban Hospitals
Average Patient Census	4.6	37.5
Average Medicare Utilization Rate	x 49.2%	x 46.7%
Average Number Medicare Patients	2.3	17.5

Are Inpatient Care And Emergency Services Available

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

Inpatient Care: In most communities where a hospital closed in 1996, inpatient hospital care was available nearby.

NEAREST INPATIENT CARE TO CLOSED HOSPITALS		
	NUMBER OF CLOSED HOSPITALS	
DISTANCE	Rural	Urban
Within 3 Miles	0	18 (67%)
4-10 Miles	3 (30%)	8 (29%)
11-20 Miles	1 (10%)	0
21-30 Miles	2 (20%)	1 (4%)
More than 30 Miles	4 (40%)	0
Totals	10 (100%)	27 (100%)

Rural Areas: Residents in 6 of the 10 rural communities (60 percent) where a hospital closed could get inpatient hospital care within 30 miles of the closed hospital. Residents of White Sulphur Springs, Montana and Big Sandy, Montana had to travel 42 and 35 miles respectively for *full service* inpatient hospital care. However, these frontier communities converted their closed hospitals into Medical Assistance Facilities (MAF). These MAF facilities provide up to four days of limited inpatient services.

The remaining 2 rural communities where residents had to travel more than 30 miles for inpatient care are:

Ozona, Texas	34 miles
Monument Valley, Utah	90 miles

Urban Areas: In 26 of the 27 urban communities (96%) where a hospital closed in 1996, residents could get inpatient hospital care within 10 miles of the closed hospital. Fifteen of the 27 urban communities (55 percent) where a hospital closed could get inpatient care in the same community.

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

Rural Areas: In 8 of the 10 rural communities (80 percent) where a hospital closed in 1996, emergency care facilities were available within 20 miles of the closed hospital. Residents of Monument Valley, Utah had to travel 23 miles for 24-hour emergency care and residents of Spring Valley, Minnesota had to travel 27 miles for 24-hour emergency care.

Urban Areas: In all 27 urban communities where a hospital closed in 1996, emergency care facilities were available within 10 miles of the closed hospital. Seventeen of the 27 urban communities (63 percent) where a hospital closed could get emergency services in the same town.

NEAREST EMERGENCY SERVICES TO CLOSED HOSPITALS		
	NUMBER OF CLOSED HOSPITALS	
DISTANCE	Rural	Urban
Within 3 Miles	4 (40%)	21 (78%)
4-10 Miles	3 (30%)	6 (22%)
11-20 Miles	1 (10%)	0
21-30 Miles	2 (20%)	0
More than 30 Miles	0	0
Totals	10 (100%)	27 (100%)

What Is the Building Used For Now

At the time of our inspection, 27 of the 37 closed hospital facilities were being used -- 23 of them (62 percent) for health-related services. For example:

- Monument Valley Hospital in Monument Valley, Utah and Crockett County Hospital in Ozona, Texas became rural health clinics.

- Bess Kaiser Medical Center in Portland, Oregon and St. Mary's Hospital in Galveston, Texas became day surgery and outpatient clinics.

- Community Memorial Hospital in Spring Valley, Minnesota and Bruce Hospital in Bruce, Mississippi are now nursing homes.

- Decatur Hospital in Decatur, Georgia was converted to a long-term acute care hospital.

- Doctors Hospital of Santa Ana in Santa Ana, California and Buena Park Medical Center in Buena Park, California became specialty hospitals.

- Enid Regional Hospital in Enid, Oklahoma is now a home health agency and rehabilitation center.

- Genesys Regional Medical Center - Wheelock Campus in Goodrich, Michigan now provides hospice services.

- Mountainview Medical Center in White Sulphur Springs, Montana and Big Sandy Medical Center in Big Sandy, Montana were converted to a HCFA sponsored Medical Assistance Facility. In addition to providing limited inpatient care, it provides 24-hour emergency services and outpatient care. (The Office of Inspector General released a report on *Medical Assistance Facilities* (OEI-04-92-00731) in July 1993.)

At the time of our review, community officials were planning to use 6 of the 10 remaining vacant hospitals for health-related services. For example, Lamar Community Hospital in Vernon, Alabama will be converted to an assisted living facility and Winsted Memorial Hospital in Winsted, Connecticut will become a day surgery and outpatient clinic.

ENDNOTES

1. Hospital occupancy rate is defined as the actual number of patient days divided by the total bed days available. National average 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 1996, 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 1996. 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 4,955 hospitals listed on HCRIS as short-term, acute care, general hospitals for the twelfth year of PPS (PPS 12).

Characteristics of Hospital Closure

To analyze characteristics of closed hospitals, we used HCRIS data. Cost reports were not available for 3 of the 37 hospitals. For the remaining 34 hospitals, we used the latest pre-closure cost reports. For example, if a hospital closed in May 1996 and its accounting year was on a January-December cycle, we used the provider's January 1, 1995 to December 31, 1995 report.

Reasons for and 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. In addition to the HCRIS, 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, health, and government officials
- State health planning agencies
- State certification and licensing agencies
- State hospital associations

APPENDIX B

1996 HOSPITAL CLOSURES - RANKED BY STATE			
State	Total Closures	Rural Closures	Urban Closures
California	7	1	6
Florida	4	0	4
Texas	4	2	2
Michigan	2	0	2
Montana	2	2	0
New York	2	0	2
Alabama	1	1	0
Connecticut	1	0	1
Delaware	1	0	1
Georgia	1	0	1
Illinois	1	0	1
Louisiana	1	0	1
Massachusetts	1	0	1
Minnesota	1	1	0
Mississippi	1	1	0
North Dakota	1	0	1
Ohio	1	0	1
Oklahoma	1	0	1
Oregon	1	0	1
South Dakota	1	1	0
Utah	1	1	0
Wisconsin	1	0	1
22 States	**37 Closures**	**10 Rural**	**27 Urban**

APPENDIX C

1996 HOSPITAL CLOSURES BY NAME AND LOCATION			
Hospital Name	City	State	Rural/ Urban
Lamar Community Hospital	Vernon	AL	rural
Sierra Community Hospital	Fresno	CA	urban
Doctors Hospital of Santa Ana	Santa Ana	CA	urban
Buena Park Medical Center	Buena Park	CA	urban
Visalia Community Hospital	Visalia	CA	urban
Tustin Hospital	Tustin	CA	urban
Desert Palms Community Hospital	Palmdale	CA	urban
Lakeside Hospital	Perris	CA	rural
Winsted Memorial Hospital	Winsted	CT	urban
Riverside Hospital	Wilmington	DE	urban
Seminole Hospital and Women's Center	Seminole	FL	urban
Pinellas Community Hospital	Pinellas Park	FL	urban
Palm Beach Hospital	Lake Worth	FL	urban
Riverside Hospital	Jacksonville	FL	urban
Decatur Hospital	Decatur	GA	urban
Saint Cabrini Hospital	Chicago	IL	urban
Elmwood Medical Center	Jefferson	LA	urban
Providence Hospital	Holyoke	MA	urban
Yale Community Hospital	Yale	MI	urban
Genesys Regional Med Ctr-Wheelock Campus	Goodrich	MI	urban
Community Memorial Hospital	Spring Valley	MN	rural
Bruce Hospital	Bruce	MS	rural
Mountainview Memorial Hospital	White Sulphur Springs	MT	rural
Big Sandy Medical Center	Big Sandy	MT	rural
Heartland Medical Center	Fargo	ND	urban
Little Neck Community Hospital	Little Neck	NY	urban
Wyckoff Heights Med Ctr-Jackson Heights	Queens	NY	urban
St. Joseph Riverside Hospital	Warren	OH	urban
Enid Regional Hospital	Enid	OK	urban
Bess Kaiser Medical Center	Portland	OR	urban
Belle Fourche Health Care Center	Belle Fourche	SD	rural
Crockett County Hospital and Care Center	Ozona	TX	rural
Garza Memorial Hospital	Post	TX	rural
St. Mary's Hospital	Galveston	TX	urban
Physicians Regional Hospital	Wylie	TX	urban
Monument Valley Hospital	Monument	UT	rural
Kaukauna Community Hospital	Kaukauna	WI	urban