



THE STATE OF HEALTHCARE IN NORTH CAROLINA



2022 IMPACT REPORT



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LETTER FROM OUR PRESIDENT AND CEO

For over 100 years, North Carolina's hospitals and health systems have been devoted to improving the lives and communities they serve. From life's most trying moments to its most joyous memories, North Carolina's hospitals are here 24/7 for all stages of life. Beyond the role of healers, our hospitals are also educators, employers, and innovators. Our work, year after year, to keep North Carolina healthy enables the bright future of our state.

The State of Healthcare in North Carolina: 2022 Impact Report details that work and the value that North Carolina hospitals bring to our communities as both healthcare providers and economic engines. Often the largest employer in the communities they serve, North Carolina health systems also fuel state and local economies as purchasers of services, supplies, and infrastructure. North Carolina hospitals and health systems contribute approximately \$40 billion in gross domestic product (GDP) impacts and support 1 in 8 jobs as economic anchors for communities.

This report also details the many challenges our state's hospitals face today. From physicians and nurses to support staff, healthcare workers have endured unprecedented pressures in their daily work in recent years. North Carolina's health systems continue to grapple with the effects of a pandemic, a severe workforce shortage, record-setting inflation, reimbursement cuts, and the lack of Medicaid expansion in the state. Despite these headwinds, we press on in our mission to care for North Carolinians.

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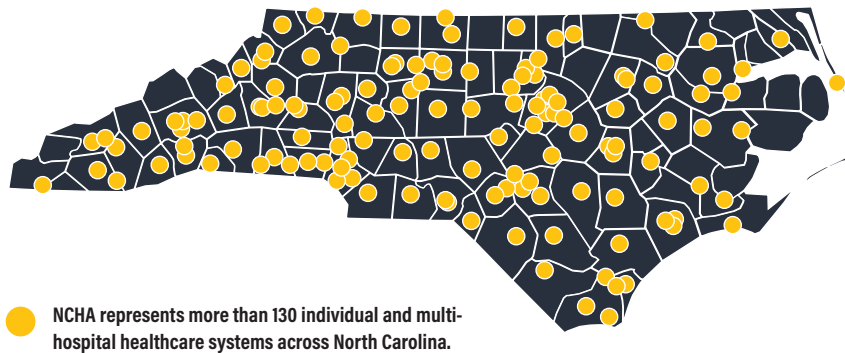
Stephen J. Lawler

President and CEO

North Carolina Healthcare Association

EXECUTIVE SUMMARY

From rural community clinics to urban research centers to teaching hospitals, NCHA members cultivate better health through patient care, discovery, education, and informed guidance on policies that move North Carolina forward. Our state's hospitals continue to provide advanced, equitable and compassionate care, because good health sustains economic growth and opens opportunity for every North Carolina resident.



This report examines the contributions in 2022 to the people and economy of our state by the 130 members of NCHA, along with the headwinds they face to continue providing the services that North Carolinians deserve. This report also describes some key issues facing North Carolina health systems, including access and innovation, workforce development and retention, health equity, and behavioral health.

Care for Every Community

Hospitals and health systems are actively working to reduce health disparities and provide essential services for every patient, regardless of their ability to pay. This financial commitment helps improve the health of all North Carolinians by reducing disparities, expanding access to care, and promoting community wellbeing.

The community benefits provided by NCHA members were valued at \$5.79 billion in 2021 and included benefits such as:

- \$60 million in subsidized health services
- \$407 million toward health professionals' education and training
- \$83 million in health-related research costs
- \$14 million in community-building activities
- \$126 million in community health
- \$54 million toward in-kind donations¹

Access and Innovation

To ensure access to care for all, hospitals and health systems are innovating how that care is delivered. Telemedicine and virtual health services increased exponentially during the COVID-19 pandemic. Today, NCHA members continue to expand access and convenience for rural communities and all patients through virtual visits, remote monitoring, and hospital-at-home programs. Continuous innovation is at the core of NCHA members' missions to serve.

Fueling the Economy

Health systems are economic engines for their communities. North Carolina hospitals and health systems are one of the top 10 employers in 92 out of 100 counties in the state, and a top three employer in 45 counties. Over 515,000 jobs are supported by hospitals and health systems. Local economies also reap the benefits of hospitals when new businesses select their region to ensure high-quality and convenient healthcare for their workforces.

8% of all jobs in the state are supported by hospitals and health systems.

Health system operations generate \$40 billion in gross domestic product (GDP), approximately 6.5% of the total value of goods and services produced by all industries in the state. NCHA members also paid \$2.5 billion in state and local taxes to sustain crucial public services, including K-12 education, social services, and law enforcement.



Supporting the Healthcare Workforce

North Carolina's skilled physicians, nurses, advanced care providers, and administrative staff carry out the mission to improve the health of all North Carolinians. This mission faces the challenge of an ongoing workforce shortage.

To address the shortage, health systems are redoubling efforts to support the current workforce while also developing the next generation of healthcare professionals. From recruiting nurses to rural communities to partnering with colleges to create career pathways, NCHA members recruit, train, and retain a qualified workforce.

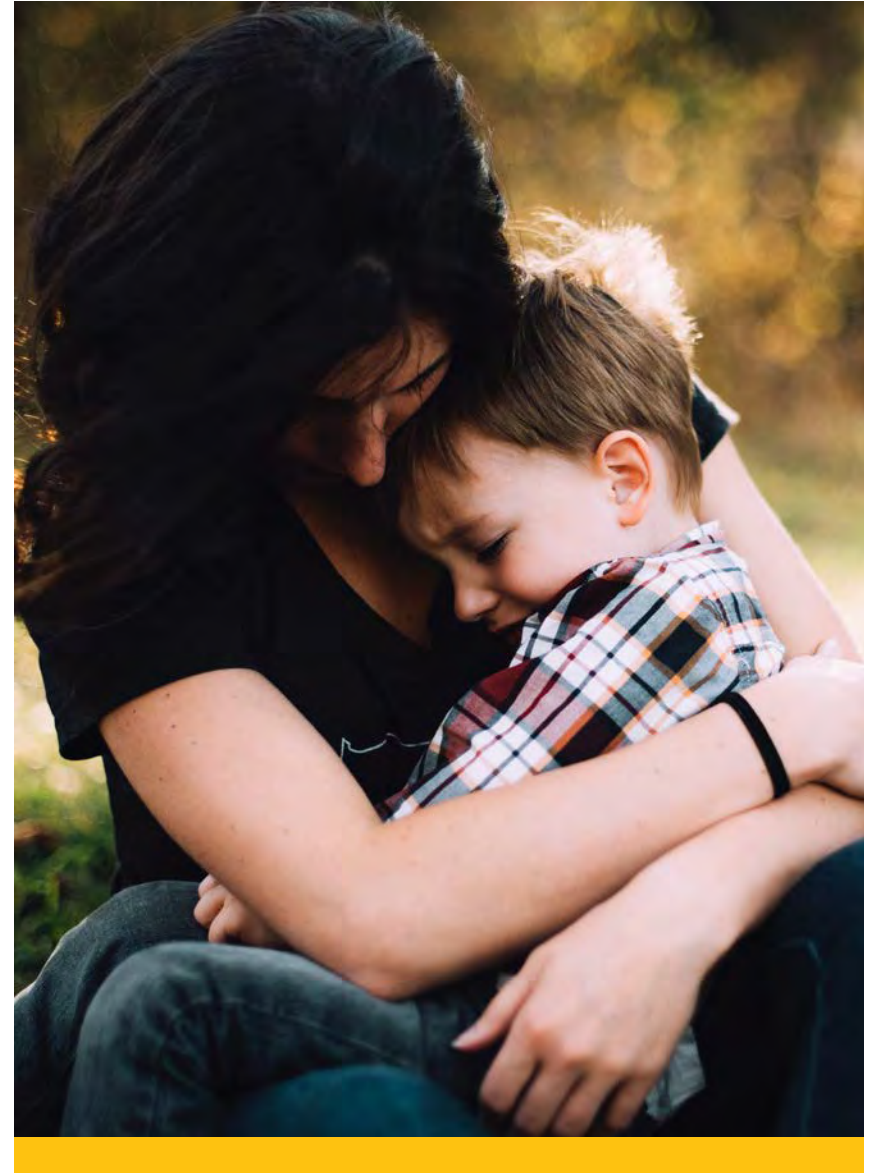
Headwinds: Rising Costs, Lower Reimbursement

North Carolina's hospitals and health systems have not escaped the significant financial blows dealt to hospitals across the nation in 2022. Facing their most serious financial losses in decades, they have seen costs rise by more than 10% over the past 12 months, while reimbursement rates have increased by just 2%, leading most hospitals in the state to see negative operating margins this year.²

In a convergence of headwinds, North Carolina's hospitals and health systems are challenged by:

- Rising operating costs due to inflation and supply chain challenges
- Workforce shortages at their highest level since 2019
- Rising labor costs
- Lower inpatient volumes
- Decreased payor reimbursement
- Stalled action by lawmakers to expand Medicaid

This situation is expected to continue, with the combined loss for North Carolina hospitals predicted to be \$2 billion in 2022.





1

COMMUNITY BENEFIT

HOW HOSPITALS CARE FOR OUR COMMUNITIES

North Carolina hospitals and health systems keep our communities strong by:

- Providing essential services for every patient, regardless of their ability to pay
- Promoting community wellness and access to care through outreach programs
- Researching and innovating to improve health outcomes
- Pursuing health equity
- Supporting the well-being and resilience of the healthcare workforce
- Protecting our communities during public health emergencies
- Ensuring access to care 24 hours a day, 7 days a week, and 365 days a year

Community benefits include:



Charity care



Graduate medical education



Cost of covering what Medicare and Medicaid do not cover



Population health



Research

HOSPITALS AND HEALTH SYSTEMS INVEST IN NORTH CAROLINA

Economic investment by hospitals and health systems supports better health across the state. In 2021, NCHA members provided a total of \$5.79 billion in community benefits to the people of North Carolina.

\$60 million

in subsidized health services, such as neonatal intensive care, addiction recovery, and trauma services

\$126 million

in community health improvement and partnering in community development

\$407 million

in training and education for health professionals, such as scholarships and internship support

\$83 million

in health-related research costs such as investment in new technologies and companies

\$54 million

in donations of food, equipment, supplies, meeting space, staff hours, and other in-kind aid³

\$14 million

in community-building activities: Initiatives to protect or improve the community's health and safety

Charity Care \$1.2 Billion

Bad Debt \$920 Million

Medicaid Losses \$820 Million

Medicare Losses \$3.1 Billion

North Carolina is a leader in healthcare, as our hospitals earn national recognition:



- North Carolina was ranked among the top 10 states for hospital safety (Fall and Spring 2022 Hospital Safety Grades).⁴
- Duke Children's Hospital and Health Center, UNC Children's Hospital, and Atrium Health Levine Children's Hospital were named Top Children's Hospitals in the Southeast by U.S. News & World Report.⁵
- North Carolina hospitals took top honors in the American Hospital Association's Carolyn Boone Lewis Equity of Care Award, including Winners – Atrium Health (2021) and Cone Health (2020) and Honorees Novant Health (2022) and UNC Chatham Hospital (2020).⁶
- Duke Regional Hospital in Durham ranked second among Top 20 Socially Responsible Hospitals in U.S. by the Lown Institute (2022).⁷

NC HOSPITALS AND HEALTH SYSTEMS COMMIT TO ADDRESS HISTORIC INEQUITIES

North Carolina hospitals and health systems are actively working to address health disparities and eliminate bias in care delivery. Individual hospitals have discovered ways to improve the equity of the care they deliver. By working together, they can spread the positive impact of their work across the state more quickly. Through a statewide initiative at the North Carolina Healthcare Association (NCHA), health systems and hospitals have signed an Equity of Care Resolution to accelerate change.

Together with NCHA, they will:

- Take action to improve equity of care in clinical settings
- Track data to monitor health disparities in North Carolina over time
- Engage key community stakeholders to address the root causes of poor health, including historic racism and poverty
- Share best practices
- Educate and empower the healthcare workforce on providing equitable care
- Advocate for policies that promote equity



ATRIUM HEALTH PLEDGES \$22.8M TOWARD HEALTH EQUITY

Atrium Health has committed \$22.8 million to a public-private project to improve health equity in the Charlotte region. The Mayor's Racial Equity Initiative is a five-year program that brings together many of the area's largest employers and healthcare organizations to remove barriers to care. Two new community health clinics are being built inside the corridors of opportunity identified by the initiative. They will provide easier access to high-quality care within these neighborhoods, a key aspect of eliminating disparities. **Atrium Health** is also investing in new educational opportunities at Johnson C. Smith University and partnering with the YMCA to close technology inequities, another key barrier to care as healthcare adopts telemedicine and other virtual care delivery models.



COMMUNITY POP-UPS: A RURAL APPROACH

Following the tenets of holistic nursing, KaSheta Jackson, DNP, RN, Vice President of Health Equity and Social Impact at **ECU Health**, designed a new care delivery approach that won the Innovation Award from the American Nurses Foundation. Her Community Pop-Up clinics meet the physical, mental, and environmental needs of communities in rural eastern North Carolina. They provide COVID-19 testing, health screenings, vaccinations, mental health resources, access to fresh produce, and employment opportunities. Pop-Ups have been held in baseball fields, farms, parks, and other informal local settings to build trust and improve community engagement.



GUILFORD COUNTY AND CONE HEALTH PARTNER TO INNOVATE FOR COMMUNITY HEALTH

Guilford County and **Cone Health** are building a joint innovation team that will take a different approach to improving the health of underserved county residents. This team will use community-based design to discover what matters most to residents and uncover opportunities for change. The new Social Innovation team will work alongside the most impacted community members to address the root causes and systems that are contributing to and perpetuating inequities in health.

Sports medicine supports local athletes

Every year when high school, college, and club sports seasons begin, **Duke Health** sports medicine doctors, physical therapists, and athletic trainers are on the sidelines to keep athletes safe and healthy. These providers, many of whom are former athletes themselves, have worked with young people throughout the community — from gymnasts to soccer players — for the past 20 years. “They understand the frustration of being sidelined with an injury,” said Alanna Baker, a physical therapist and athletic trainer at **Duke Health**. “We do it to help young athletes stay at the top of their game and to give players, coaches, and parents one less thing to worry about. Our partnership with local high school athletes and their families is the core of our community outreach.” **Duke Health** sports medicine specialists also offer on-field injury management during games and training room consultations to college football teams at Elon, North Carolina Central, Saint Augustine’s, and Shaw universities.⁸






2

ACCESS AND INNOVATION

HOSPITALS INNOVATE TO IMPROVE ACCESS TO CARE



The hospitals and health systems of North Carolina are using technology and removing barriers to help North Carolinians get the care they need in the right setting.

Emerging innovations like telemedicine, hospital-at-home programs, and medicine delivered by drones are making physicians' and patients' lives easier. Because the most significant barrier to care is too often the cost of care, hospitals and health systems are also working to ensure access regardless of ability to pay and to expand Medicaid to cover 600,000 more North Carolinians.

VIRTUAL CARE IS HERE TO STAY IN NORTH CAROLINA

Telemedicine and virtual health services increased exponentially during the COVID-19 pandemic and increased access to care. North Carolina hospitals and health systems are at the forefront of expanding telehealth with innovations like virtual visits and remote monitoring, which are convenient for patients and help improve health outcomes.

TELEHEALTH EXPANDS ACCESS TO ADVANCED CARE

The broad implementation of telehealth services can help make healthcare more accessible to all patients.

Hospitals and health systems support:

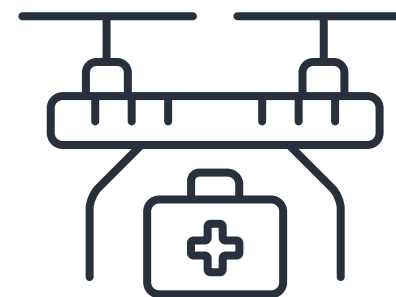
- Protecting patients' rights to telehealth access and coverage by their insurer
- Expanding affordable broadband connectivity to all North Carolinians
- Using interstate licensure compacts to address healthcare workforce shortages
- Making temporary flexibility introduced in federal rules due to COVID-19 permanent

MOBILE HEALTH PROGRAM BRINGS CARE TO RURAL COMMUNITIES

Atrium Health Wake Forest Baptist's Mobile Health Clinic, a service of Wake Forest Baptist's BestHealth For Business, partners with local organizations and faith communities to meet the medical needs of people in the community. The Mobile Health Clinic provides medical, nursing, and nutrition services as well as cancer screenings to adults and teens without coverage in underserved communities. These community members can also receive preventive care, care for minor illnesses, and management for chronic health conditions including hypertension, diabetes, and asthma, along with COVID-19 testing for those with symptoms, all at no cost. Health education and nutrition coaching in partnership with the Winston Lake YMCA, no-cost lab services, and referrals to specialists are also available.

NOVANT HEALTH'S DRONES DELIVER MEDICATIONS

Novant Health uses drones to deliver essential medications in as little as 15 minutes to patients' homes with partner Zipline, which has a distribution center in Kannapolis capable of serving patients within a 7,800-square-mile area. As Governor Roy Cooper told Forbes, "This innovative partnership will increase access to healthcare for our community."⁹



WAKEMED PHYSICIAN CREATES A DEVICE USED IN OVER 130 HOSPITALS

Dr. Mark Piehl, a pediatric intensive care physician at **WakeMed Health & Hospitals**, had an idea for a faster way to help patients with severe bleeding or sepsis who needed rapid, life-saving transfusions of blood or fluids. Partnering with North Carolina State University engineering students, he designed a prototype handheld device, LifeFlow, that enables clinicians to rapidly deliver blood and fluids to critically ill patients. The device, distributed through his company 410 Medical, is now used in over 130 hospitals, EMS agencies, and air medical systems across the country.¹⁰

HOSPITALS ACCELERATE HOME HOSPITAL PROGRAMS

CaroNova is a bi-state health innovation incubator supported by The North Carolina Healthcare Association, the South Carolina Hospital Association and The Duke Endowment. It works alongside payors, providers, subject matter experts, community members and patients to find efficient ways to scale and sustain innovative healthcare ideas to benefit both North Carolina and South Carolina.

In 2022, **CaroNova** convened a Home Hospital Early Adopters Accelerator to equip hospitals to develop and sustain home hospital programs to treat acutely ill patients at home.

CaroNova partnered with Boston-based Ariadne Labs to develop a 40-week program to design 20 implementation tools and to lead webinars and peer learning sessions.

Nine health systems and hospitals from North Carolina participated.

This will improve healthcare delivery in several ways, including that:

- Patients prefer receiving care in their home
- Payors prefer having patients get care in the least acute setting possible
- Hospitals can preserve traditional hospital beds for patients with more critical, high-touch needs



MEETING THE NEEDS FOR BOTH MENTAL AND PHYSICAL HEALTHCARE

Hospitals are also innovating to increase access to behavioral healthcare, particularly in medically underserved and other high-need areas. Their efforts not only seek to save lives with faster access to mental healthcare, but also relieve pressure on the state's emergency departments by offering appropriate alternative care sites.



Meet Malika Neal: Brunswick County's Student Crisis Counselor

North Carolina health systems are delivering mental healthcare through innovative new models, like the **Novant Health** Telepsychiatry program. In Brunswick County, licensed clinical social worker Malika Neal works with school staff to identify students in crisis. Within minutes, she connects to and counsels students via videoconference. The program began in June 2021 with the help of a three-year, \$400,000 grant from The Duke Endowment. By avoiding emergency room visits, students receive appropriate care and stay in school.

CONE HEALTH BRIDGES BEHAVIORAL HEALTH THERAPY AND INPATIENT CARE

Innovation is needed to provide holistic care to patients who have both physical and mental health needs. The Guilford County Behavioral Health Center, in partnership with **Cone Health**, opened in 2021 to provide 24/7 care for patients of all ages. In August 2022, Guilford County and **Cone Health** opened 16 longer-term crisis care beds to care for adults with significant mental health needs. A second facility on the campus operated by Alexander Youth Network includes a 16-bed child-based facility crisis center providing extended stay for adolescents.



NEW BEHAVIORAL HEALTH HOSPITAL MEETS CRITICAL NEED IN THE HIGH COUNTRY

In 2021, **Appalachian Regional Healthcare System** opened the freestanding Appalachian Regional Behavioral Health Hospital, with 27 behavioral health beds and walk-in outpatient services. The facility can serve 1,500 residents of western North Carolina each year, meeting a critical need in the community. Adults can walk into the facility and behavioral health professionals will assess them to determine if they need inpatient or outpatient care. There is no need for a referral or to visit an emergency department first.





3

ECONOMIC IMPACT

**HOSPITALS AND HEALTH SYSTEMS FUEL NORTH CAROLINA'S
LOCAL ECONOMIES**



More than 515,000 jobs
are supported by hospitals and health systems.

Every job in North Carolina health systems and hospitals creates another job in the economy.¹¹

In addition, when businesses relocate or expand, they look for areas with excellent hospitals to provide care for their workforce.

HOSPITALS CREATE JOBS



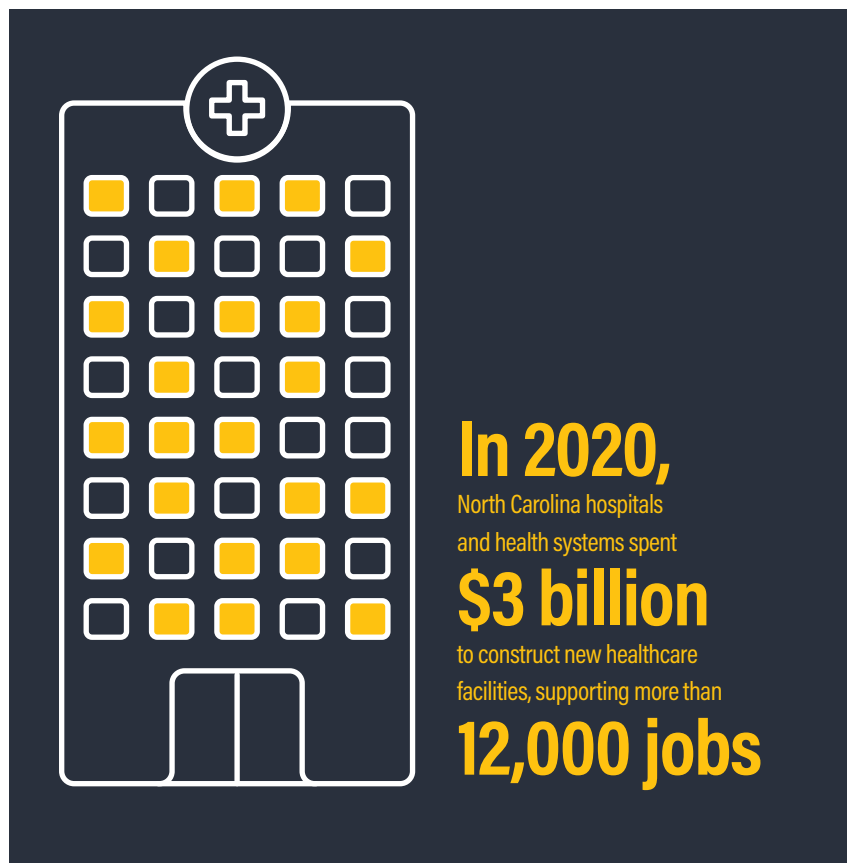
North Carolina hospitals and health systems are **one of the top 10 employers in 92 (out of 100) counties** in the state, and a top three employer in 45 counties.

Hospitals and health systems support 515,000 jobs, or 8% of all jobs in the state, by providing 268,000 direct jobs and supporting an additional 247,000 jobs in other industry sectors.

TOTAL ECONOMIC IMPACT

Annually, health systems in North Carolina...

- Spend **\$34 billion** on staff and operating expenses.
- Invest **\$3 billion** in new facility construction.



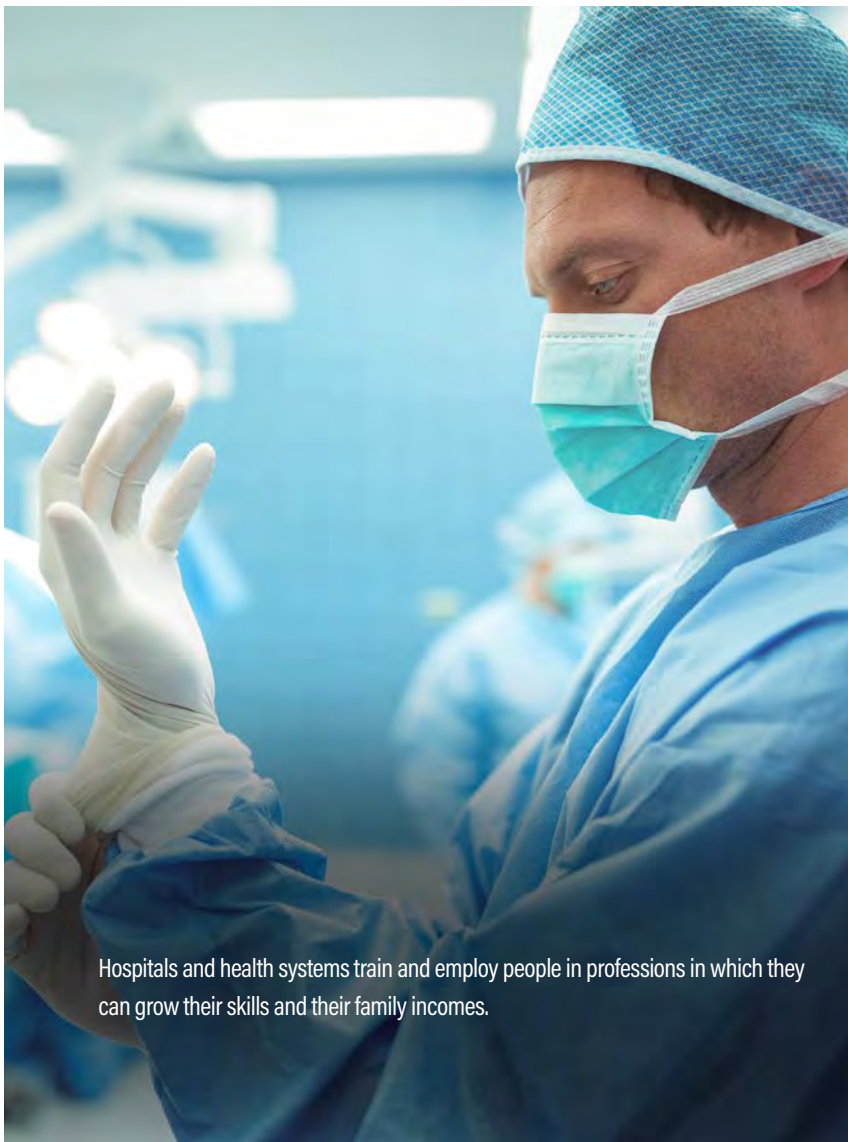
North Carolina health
system and hospital
operations generate

\$40 billion

in gross domestic
product (GDP) impacts —
approximately 6.5% of the
total value of goods and
services produced by all
industries in the state.



BUILDING PROFESSIONS AND INCOME FOR NORTH CAROLINIANS



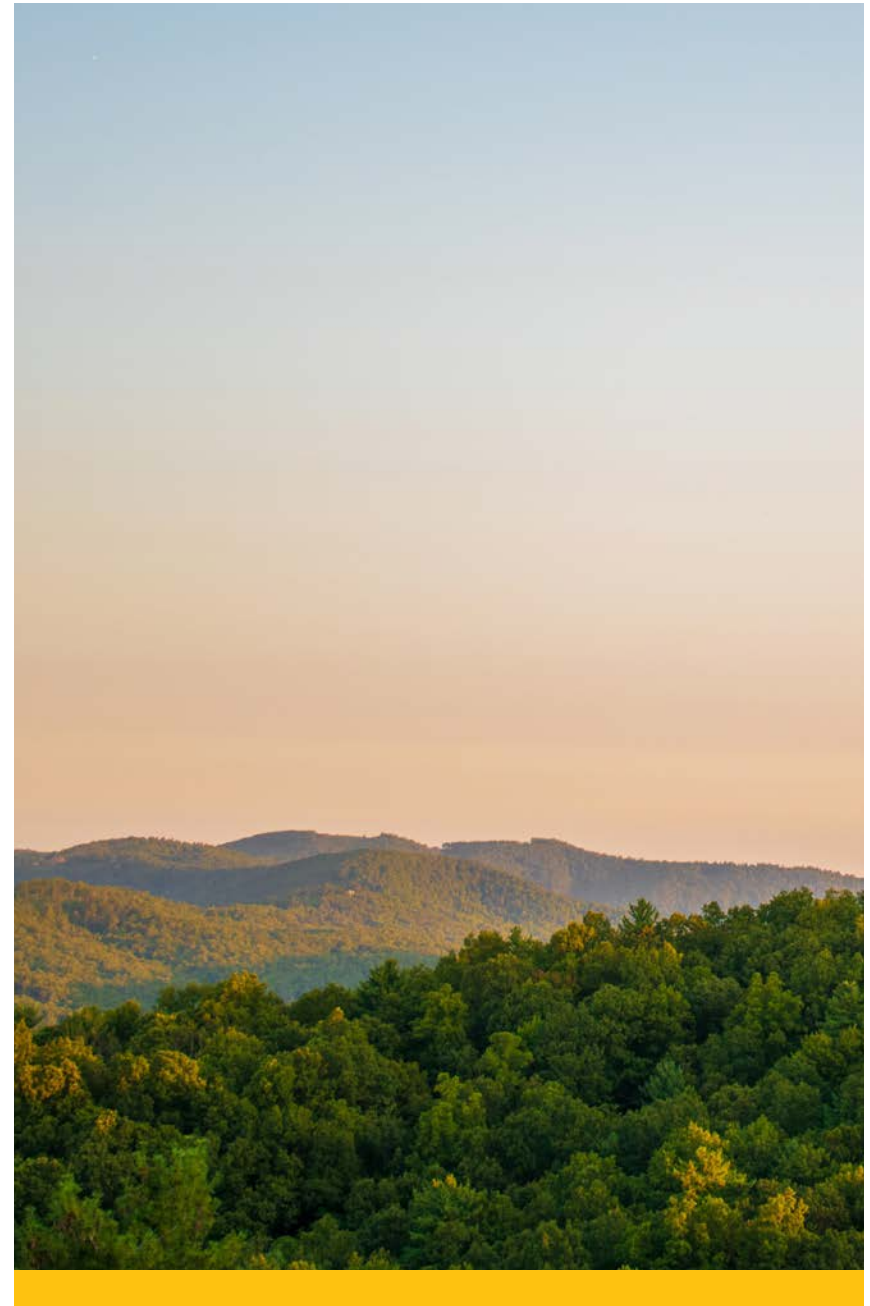
Hospitals and health systems train and employ people in professions in which they can grow their skills and their family incomes.

Healthcare sector jobs have average wages and benefits of \$66,600 per year, compared to the state average of \$64,400.¹² And with rising incomes, local economies benefit in every community where a hospital employee resides.

PARTNERSHIPS PROPEL HOSPITALS AND COMMUNITIES

Partnership means survival for many rural hospitals. In North Carolina, larger health systems have partnered with smaller hospitals to ensure rural areas continue to receive health services. From management operating agreements, to mergers and acquisitions and other agreements, each partnership supports expanded access to care and creates economic benefits for entire communities.

- East Carolina University's Brody School of Medicine and Vidant Health completed a joint operating agreement to form **ECU Health**. The new entity streamlines administration and creates a more seamless teaching hospital experience for medical students by leveraging the capabilities of each organization to advance the collective research and education infrastructure. Clinical integration is important in the effort to effectively and efficiently address current issues facing the region, such as health disparities and care delivery obstacles, while also better anticipating future healthcare and educational needs.
- **Southeastern Health** in Lumberton joined **UNC Health** in 2020 to enhance opportunities to recruit and retain highly skilled physicians and caregivers to the area to maintain and grow local services.
- **Mission Health's** partnership with **HCA** in 2019 included building the new **Angel Medical Center** in Franklin, which opened in September 2022.
- **ECU Health** and Acadia, the largest standalone provider of behavioral healthcare services in the US, have partnered to invest approximately \$65 million to build a dedicated behavioral health hospital in Greenville, anticipated to open in spring 2025. The hospital will include 24 inpatient beds specifically for children and adolescents with mental health needs. These beds will be the first of their kind in **ECU Health's** 29-county service area and the only child and adolescent beds within 75 miles of Greenville. The new behavioral health hospital will serve as a teaching hospital, training students and residents from the Brody School of Medicine, many of whom will go on to practice in eastern North Carolina.



A photograph of two healthcare workers in a clinical setting, wearing full personal protective equipment (PPE) including white gowns, blue bouffant hairnets, blue surgical masks, and blue gloves. They are embracing each other in a supportive hug. The background is a blurred hospital corridor.

4

THE HEALTHCARE WORKFORCE



NORTH CAROLINA'S HEALTHCARE WORKFORCE: DEDICATED, EXPERT, RESILIENT

Hospitals' and health systems' mission to advance the well-being of North Carolinians cannot be accomplished without skilled physicians, nurses, and advanced care providers, supported by dedicated administrative and operations experts.

HOSPITALS AND HEALTH SYSTEMS RESPOND TO THE WORKFORCE SHORTAGE

The current severe shortage of healthcare workers has led to high vacancy rates that impact care across North Carolina. It is estimated that by 2033, North Carolina will be short nearly 12,500 registered nurses and more than 5,000 LPNs. The greatest need is expected to be in hospitals, with demand exceeding supply by nearly 10,000 positions by 2033.¹³

In response, hospitals and health systems have intensified efforts to support the healthcare workforce, cultivate resilience, and develop the next generation of healthcare professionals.

WORKFORCE RESILIENCE

A 2022 *The Journal of the American Medical Association (JAMA)* study reports that healthcare workers experienced more emotional exhaustion during the second half of the pandemic, with burnout highest among nurses, clinical support staff, nurses' aides, clinical social workers, pharmacists and attending physicians.¹⁴

In one program to increase resilience, led by the **Duke Center for Healthcare Safety and Quality**, healthcare workers are provided evidence-based, interactive "resilience tools" specifically designed for busy frontline staff. Those tools include email or text messages reminding recipients to take two minutes a day for eight days to "cultivate awe," "cultivate routines and rituals," and "cultivate healing through reflective writing." Duke is also the site of research funded by the National Science Foundation into the well-being of healthcare professionals working in intensive care units.¹⁵

In North Carolina's rural regions, community hospitals are expanding programs to attract doctors- and nurses-in-training and help them build their careers and lives in rural areas. Health education initiatives also help create jobs and opportunities for local residents.

Hospitals across the state are focused on recruiting and retaining nurses amid the nationwide nursing shortage. Over the last few months, **Novant Health New Hanover Regional Medical Center** has hired 117 nursing school graduates who are now working in the hospital.

Crystal Tillman, chief executive officer of the North Carolina Board of Nursing, which issues nursing licenses, provided a more optimistic outlook. "In the last two years, our numbers, the percentages, just keep going up for nurses," Tillman said.

- Since 2020, the number of nurses renewing their licenses has risen by 3.9%
- Since 2021, students completing the licensure exam has risen 5.2%
- Since 2021, the number of nurses moving from other states to work in North Carolina has increased by nearly 13%¹⁶

State leadership is also focused on alleviating the workforce shortage. In September 2022, North Carolina's U.S. Senator Thom Tillis co-introduced the bipartisan National Nursing Workforce Center Act to Congress to establish nursing workforce centers and further bolster the number of nurses in the state.

LONG-TERM PLANS TO BUILD WORKFORCE FOR THE FUTURE

Hospitals and health systems partner with entities like the North Carolina Area Health Education Center, NC Office on Rural Health, and federal programs like the National Health Service Corps to recruit, train, and retain frontline health workers across the state through enrichment activities, educational programs, professional development, and leadership training. Hospitals are partnering with middle schools, high schools, community colleges, and colleges and universities in a multi-pronged approach to create the next generation of healthcare providers. Rural health systems are working with federal and state partners to offer state-based practice incentives to attract health professionals to medically underserved areas.



Atrium Health Wake Forest Baptist partners with Davidson-Davie Community College on largest healthcare apprenticeship in North Carolina

In August 2022, Davidson-Davie Community College announced the creation of the largest healthcare apprenticeship program in the state, with **Atrium Health Wake Forest Baptist** signing on as the college's first healthcare partner. Under the new agreement, students will be able to work in a healthcare profession while taking courses related to their career goals. The partnership will include medical assisting, medical laboratory technology, nursing, licensed practical nursing, pharmacy technology, central sterile processing, surgical technology, and nurse aide. The college will work with other healthcare partners to establish apprenticeships in health information technology, EMT, and paramedics. The partnership builds off the success of a 2021 collaboration between the community college and the health system to launch the state's first registered nurse apprenticeship program.

Cape Fear Valley Health builds a center for resident training

Cape Fear Valley Health is building a \$30 million, 120,000-square-foot Center for Medical Education and Research for their medical residency program. The state-of-the-art facility is designed to attract residents, physicians, and specialists to Cumberland County. The new center will allow the program to expand to 300 residents and help train about 100 medical students from Campbell University to address the shortage of doctors in North Carolina. Over the next 10 years, the residency program is expected to bring \$580 million in value to the region, and to have an impact similar to a company bringing more than 900 jobs to the area.

“ Ultimately, improving access and quality of healthcare is our main focus.”

— Donald Maharty, DO, FACOF, vice president of medical education
for **Cape Fear Valley Health System**.¹⁷

Northern Regional Hospital is invested in the next generation of nurses

To help address the nursing shortage in the area, in June 2021 Northern Regional Hospital, located in Mount Airy, launched the first youth apprentice program for registered nurses in North Carolina. An initiative of the U.S. Department of Labor's Apprenticeship program and the state's ApprenticeshipNC program through the N.C. Community College System Office, students will earn free tuition at a North Carolina community college to earn their Associate Degree in Nursing (ADN). The internship will utilize a work-based learning experience along with classroom academics to help students earn national certification. As of July 2022, 14 interns have signed with the program.

“ Collaborating with our local public school systems and Surry Community College embraces our approach to 'growing your own' talent to address a nursing shortage while also helping students achieve their professional aspirations. If we invest in people, they will in return invest in us.”

— Chris A. Lumsden, president and chief executive officer
of **Northern Regional Hospital**



5

HEADWINDS

CHALLENGES FACED BY NORTH CAROLINA'S
HOSPITALS AND HEALTH SYSTEMS

A PERFECT STORM OF CHALLENGES FACING HEALTH SYSTEMS

As a result of converging headwinds, hospitals and health systems are facing their most serious financial losses in decades in 2022. Costs have gone up by more than 10% over the past 12 months, while reimbursement rates have only increased by approximately 2%, a perfect storm for steep declines in operating margins.¹⁸ Without adequate reimbursement, hospitals struggle to continue to provide essential services and to attract and retain staff.

Hospitals and health systems face challenges with finances, the workforce and the political environment that threaten their ability to serve North Carolinians.

1

Rising operating costs due to inflation and supply chain challenges

4

Lower inpatient volumes

2

Workforce shortages at highest level since 2019

5

Decreased payor reimbursement

3

Rising labor costs

6

Opposition to Medicaid expansion



CHALLENGES FACING HEALTH SYSTEMS

North Carolina hospitals and health systems are driven by their mission of providing quality care to patients every hour of every day all year long, regardless of ability to pay. It is often assumed that hospitals and health systems are financially stable, when that is not always the reality.

North Carolina's rural hospitals incur \$400 million in unreimbursed costs annually.

The COVID-19 pandemic placed extraordinary stress on the nation's and North Carolina's healthcare system. Today, North Carolina's hospitals face a national healthcare workforce shortage, significant expense increases, fewer places to safely discharge patients, and structural revenue and cost imbalances.

In 2021, the state surprised hospitals with an unexpected \$200 million tax increase due to the funding structure of Medicaid.¹⁹ The federal government pays states a percentage of the cost of Medicaid and states must fund the remaining non-federal share. In North Carolina, the state funds part of its share by taxing hospitals. In State Fiscal Year 2022, North Carolina's hospitals and health systems will pay approximately \$809 million to fund the state's portion of the cost of Medicaid, which will increase to over \$1 billion in 2023.

INCREASED OPERATING EXPENSES

Rising non-reimbursable costs of delivering care and community benefits continue to challenge hospitals and health systems, including labor, supplies, and purchased services. As a result, from January through June 2022, more than 60% of North Carolina's hospitals had a negative operating margin. This situation is expected to continue, with **the combined loss for North Carolina hospitals predicted to be \$2 billion in 2022.**

This aligns with a national report released by Kaufman Hall in September 2022, which found that "losses will be in the billions of dollars in 2022 for U.S. hospitals with no foreseeable federal support, which could result in the most difficult year for hospitals and health systems since the beginning of the pandemic."²⁰

Altogether, the expense pressures and volume and revenue declines could force hospitals to make difficult decisions around the services they are able to safely provide to patients.

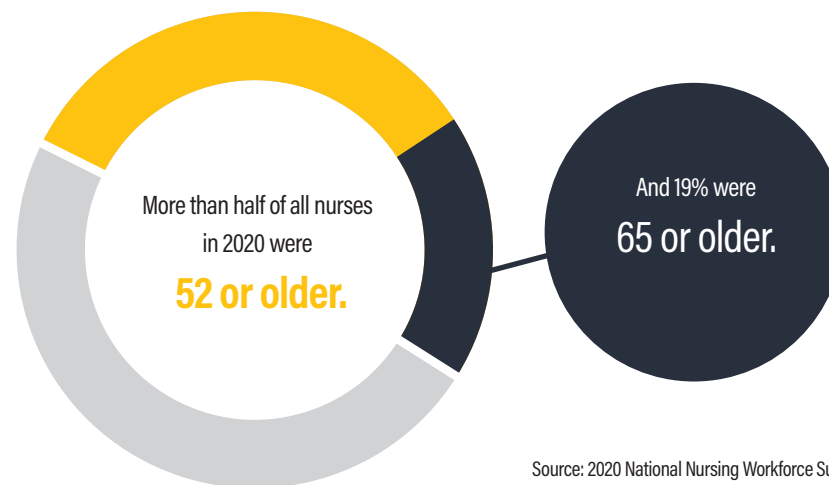


A HISTORIC WORKFORCE SHORTAGE

In 2022, North Carolina's hospitals faced the worst staffing shortage since the beginning of the COVID-19 pandemic, a shortage driven by many factors across the nation. Clinical teams and operations staff of NCHA member hospitals have experienced:

- High rates of burnout among care delivery teams
- Retiring physicians, nurses, and other healthcare professionals
- Healthcare workers relocating out of state or shifting to travel and contract positions

Nationwide, **nearly 1 in 5** healthcare workers have left their jobs over the course of the pandemic.²¹

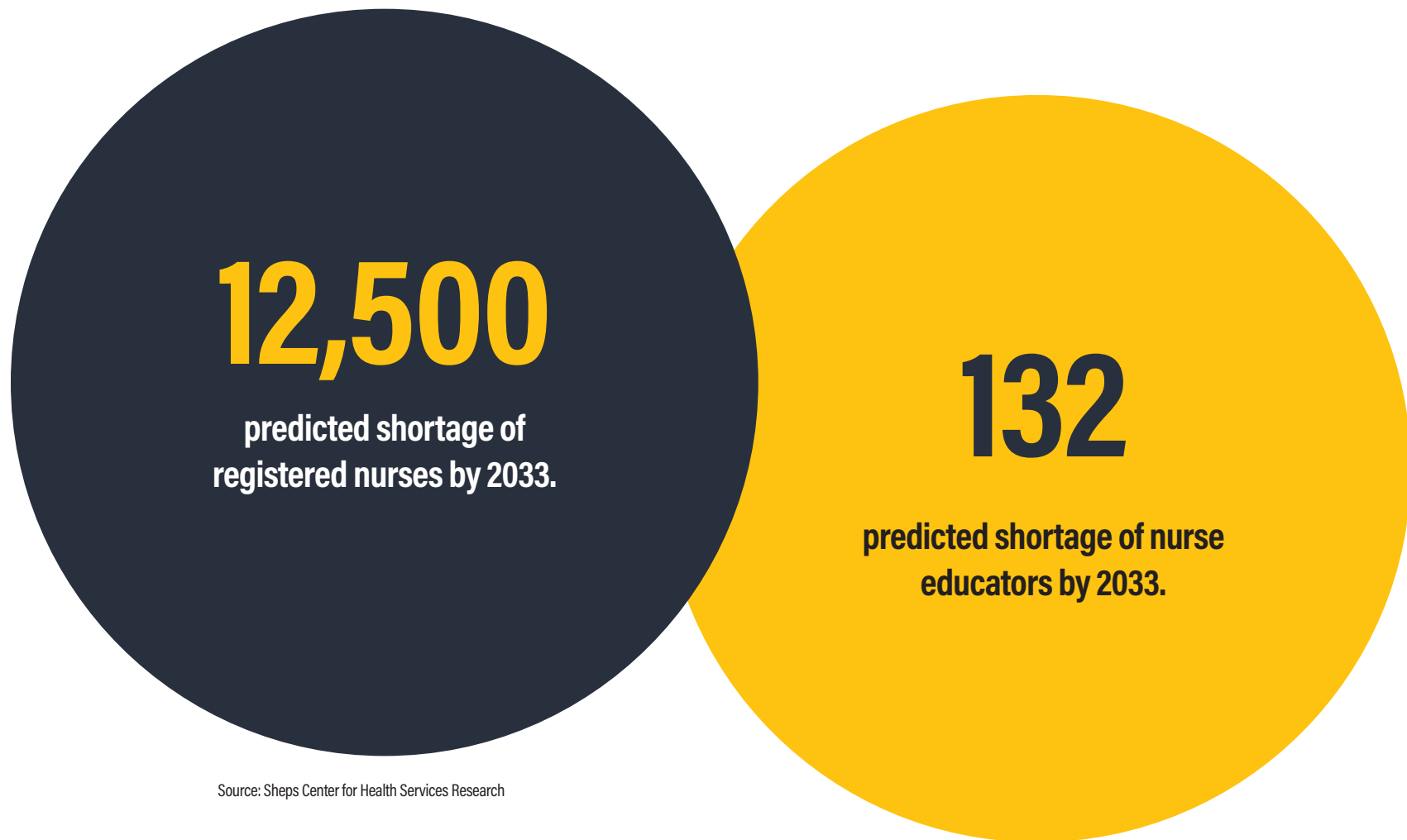


Source: 2020 National Nursing Workforce Survey

“The pandemic hasn’t stopped causing workforce issues. The stresses that were put on the healthcare systems, especially the rural hospitals during the pandemic, are actually continuing. We have lost a lot of providers to retirement. We’ve lost a lot of providers to going to different areas of the country to travel and earn more money. We’ve lost a lot of providers and staff to burnout and what we’ve been left with is a situation where we’ve had to hire a lot of what we call travelers or contract labor.”

– Dr. James Hoekstra, president of **Atrium Health Wake Forest Baptist High Point Medical Center**, NCHA webinar

North Carolina's Nursing Shortage:



Source: Sheps Center for Health Services Research

HOSPITALS AND HEALTH SYSTEMS RESPOND TO THE WORKFORCE SHORTAGE

To increase recruitment and retention, North Carolina hospitals have offered current staff:

- Compensation increases
- Accelerated promotions
- More full-time position openings
- Improvements to benefits packages
- Enhanced working environments

North Carolina's community hospitals are also working to build the pipeline of qualified employees by attracting doctors-in-training with support to build their careers and lives in rural and underserved regions of the state. Despite these efforts, the healthcare workforce crisis is unlikely to be resolved in the foreseeable future.

North Carolina was in the **Top 10** for travel nurse demand for **9 months in 2022**. Through NCHA Strategic Partners, North Carolina hospitals have access to a nationwide network of healthcare staffing agencies to simplify and speed up the search process and access cost-effective solutions.

(Source: Qualivis, Dec. 2022)

WORKFORCE SHORTAGE DRIVES UP LABOR COSTS

As the pipeline of nurses and other healthcare professionals shrinks, the cost of recruitment and retention rises. Between 2019 and 2022, hospital labor costs rose nearly 40% nationwide, with increased reliance on contract labor driving up expenses.²² Ad hoc staffing solutions like contract and travel nurses are unpredictable and costly and can have a negative impact on the culture of teamwork that is essential for high-quality care in medical facilities.

“The expenses around contract staffing, that’s going to be a breaking point for a lot of hospitals.... They’re not going to be able to reasonably sustain that.”²³

– Melissa Allen, project and operations director at WakeMed's Cary Hospital



INFLATION RISES AS MARGINS FALL

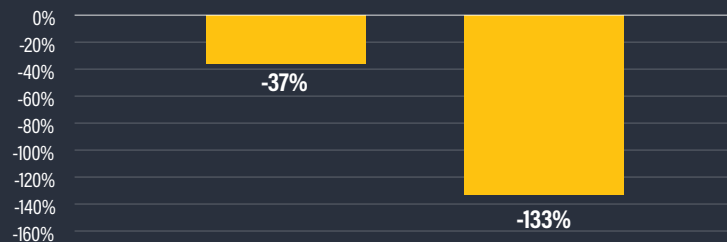
A hospital's fiscal health has a significant ripple effect at the local level. Low and negative margins preclude hospitals from the financial security they need to preserve access to vital healthcare services and to access capital markets and modernize healthcare facilities for all patients.

Inflation continues to raise the cost of supplies and wages, both necessary expenses not covered by health insurers — putting health systems at further financial risk. Unlike other industries, hospitals are less able to adjust their costs to navigate inflation.

“The current inflationary pressures, supply chain challenges and workforce shortages are unprecedented. I've been connecting hospitals to medical supplies and staffing support from more than 20 years and have never seen such a tough environment.”

— Jody Fleming, president of NCHA Strategic Partners

Percentage change in national health system projected margins 2019-2022



Kaufman Hall's "The Current State of Hospital Finances, Fall 2022 Update"

In 2022, non-labor expenses are **projected to surpass pre-pandemic levels**, with expenses for supplies anticipated to grow by **\$11 billion**. This is mostly due to inflation. In addition to rising labor costs, non-labor expenses are expected to remain approximately **20-25% above** what they were before the pandemic, with drug and supply inflation representing the largest components of the increases.



HOSPITALS HAVE LIMITED OPTIONS TO RESPOND TO INFLATION

North Carolina's hospitals have difficulty absorbing their escalating expenses. Most hospitals' care is paid for based on prices set by Medicare and Medicaid, which do not cover the cost of providing care — paying just 84 cents and 61 cents for every dollar of care provided, respectively. Even if a hospital has a sufficient number of non-government-insured patients, negotiations with commercial insurers leave little room to address escalating hospital expenses in a timely or meaningful way.



North Carolina hospitals incur losses in order to provide essential services to the community. In 2021, these included:

**\$3.1
billion**
in Medicare losses²⁵

**\$820
million**
in Medicaid losses

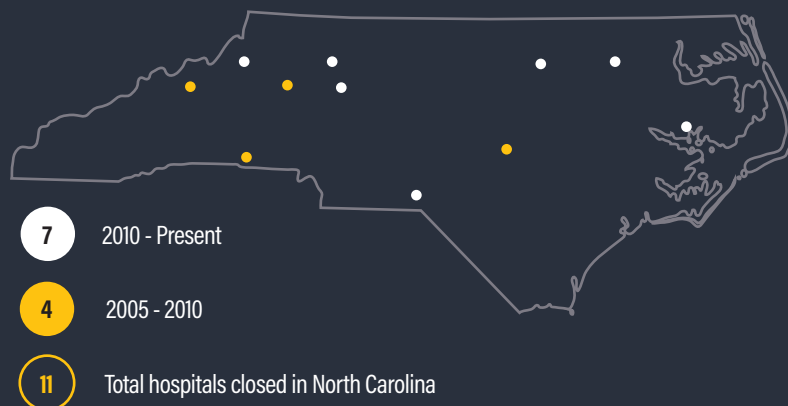
**\$920
million**
in bad debt

**\$1.2
billion**
in charity care

PROTECTING ACCESS TO CARE IN RURAL AREAS

North Carolina has had 11 rural hospital closures since 2005, the third highest rate nationally.²⁶ In addition, services offered by some hospitals have been reduced: Between 2013 and 2020, nine maternity units closed in the state. Out of the 11 rural hospital closures, four of these hospitals were converted to provide other types of care.²⁷

Since 2005, 183 rural hospitals have closed nationally, including 56 between 2017 and 2022 — the overwhelming majority of them for financial reasons.²⁸ Most of these rural hospital closures occurred in communities with high rates of health disparities and poverty.

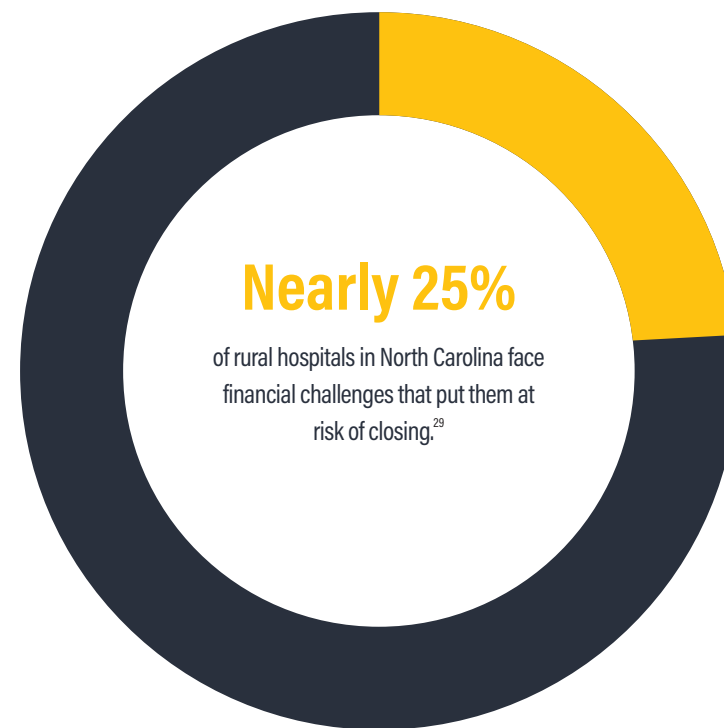


Among rural hospitals facing headwinds, **Martin General Hospital** in Williamston was forced to temporarily suspend intensive care unit (ICU) services for a lack of nurses in 2022. Other hospitals, like **Davis Regional Medical Center** in Statesville pivoted its operations from a full-service hospital to instead provide inpatient behavioral healthcare, helping to address North Carolina's mental health crisis. These and other hospitals need policymakers and insurers to support innovations that ensure the good health of all North Carolinians.

HELPING RURAL HOSPITALS SURVIVE

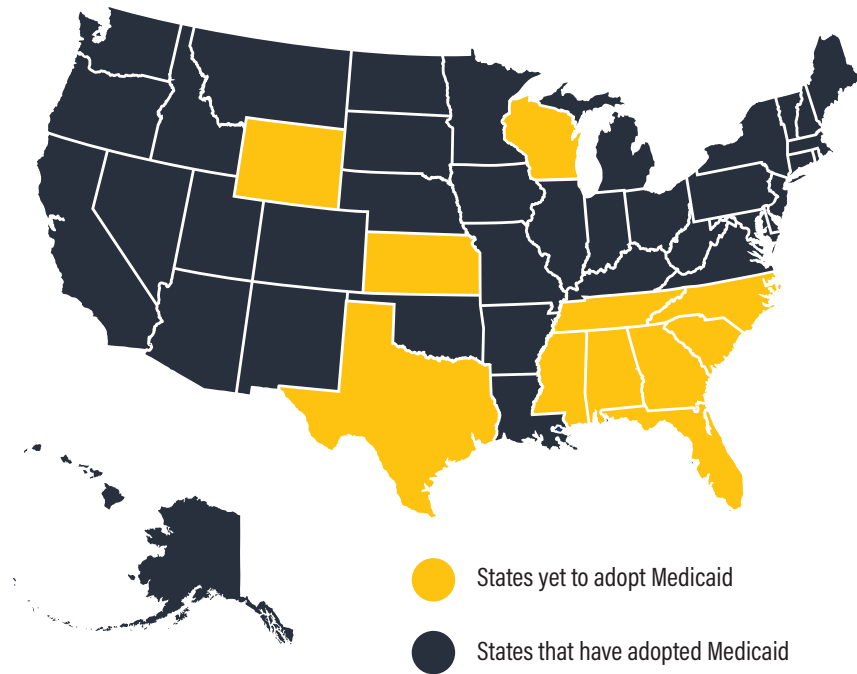
North Carolina health systems have helped smaller rural hospitals find ways to adapt to a changing environment and continue to serve their communities — often through partnership and consolidation. Partnership can mean survival for rural hospitals and ensure their patients' access to high-quality care close to home. **Duke LifePoint** now runs several critical access hospitals.

North Carolina health systems also support rural hospitals by providing care and outreach across the state, including community health workers, telehealth and home health services, and mobile healthcare services. During natural disasters or public health emergencies, rural hospitals may also integrate care with larger health systems via telehealth consults and inpatient care.



THE OPPORTUNITY TO EXPAND MEDICAID IN NORTH CAROLINA

North Carolina is one of 11 states that has not yet expanded Medicaid to cover people under the age of 65 who neither qualify for Medicaid nor are eligible for subsidized health plans at the HealthCare.gov marketplace. For over a decade, NCHA member hospitals have supported the expansion of Medicaid for this population.³⁰ Prioritizing affordable healthcare for over 600,000 North Carolinians is an important step our state can take to achieve health equity for all residents. In addition, the COVID-19 relief bill passed by Congress in March included financial enticements for North Carolina and other states to expand Medicaid coverage to eligible individuals. Essentially, the federal government will cover 90% of the costs for expansion.



HASP: HOW HOSPITALS AND HEALTH SYSTEMS CAN MANAGE THE COST OF MEDICAID EXPANSION

In September 2022, NCHA's Board of Trustees unanimously approved a proposal to leaders of the North Carolina General Assembly to enable the expansion of Medicaid.

North Carolina hospitals and health systems have offered to fund the majority of the state's share of expanding Medicaid, approximately \$550 million per year. Hospitals also requested the General Assembly include with expansion a federal directed payment program, **Healthcare Access and Stabilization Program (HASP)**, which enables health systems to cover the state's share of the cost of expanding Medicaid. The HASP program would bring federal taxpayer dollars back to North Carolina to cover the expenses that hospitals would otherwise be required to cover. Both Medicaid and HASP are essential to hospitals' ability to continue serving North Carolinians.



“Most of the states with the highest number of uninsured adults have not expanded Medicaid. **North Carolina** is among those non-expansion states, and **15.7% of adults were uninsured in 2020**, placing the state near the bottom.”

– The Commonwealth Fund

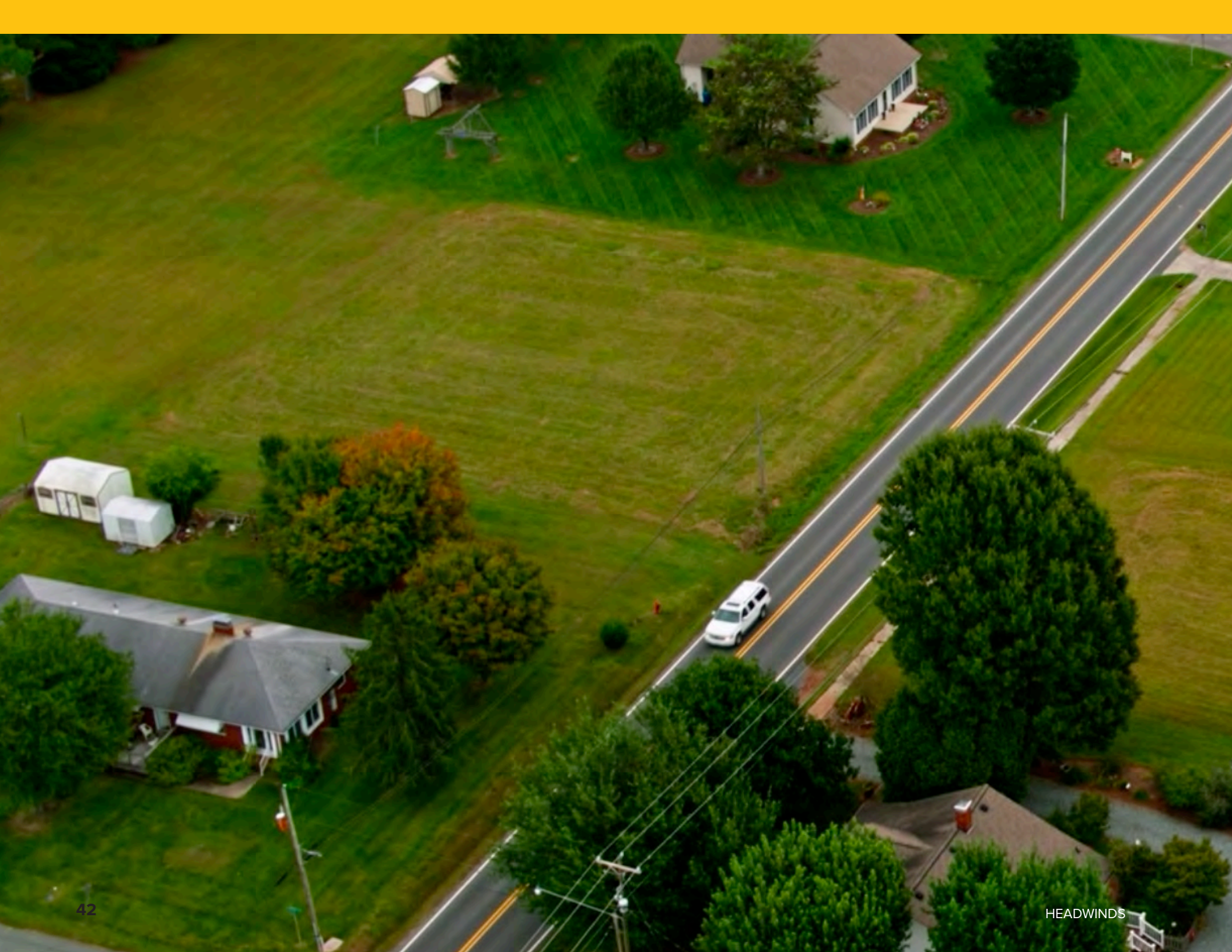
Benefits of HASP:

- HASP may ensure that North Carolinians living in rural areas can continue to access the healthcare services they need.
- If passed, HASP will compensate rural hospitals for approximately 90% of their unreimbursed costs.
- With HASP, North Carolina hospitals and health systems may receive up to \$1.8 billion in federal dollars to improve access to care for North Carolinians with Medicaid coverage.
- HASP will cost nothing to the state and, if approved by CMS, could provide the North Carolina General Fund up to \$60 million per year.

Understanding HASP:

This federal directed payment program administered by the Centers for Medicare and Medicaid Services (CMS) is available to **reimburse hospitals for the difference between their current Medicaid equivalent rates and the average commercial rate.**







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