Supporting and Sustaining Rural Hospitals

Rural hospitals provide vital health care services for their residents and contribute to the overall economic and social well-being of rural communities. These services are important—as the health gap between urban and rural Americans continues to grow—given that rural residents are already at a higher risk of death from potentially preventable injuries and disease than their urban counterparts.

Despite their importance, rural hospital closures have been ticking up since the recession of 2008-2009. Between 2010 and 2021, at least 136 rural hospitals have closed. This number includes complete and converted closures in which a hospital converts to provide other forms of care. Most hospitals closed because of financial problems. Between 2011 and 2017, the proportion of profitable rural hospitals among those that remained open declined, a trend not observed among urban hospitals. Factors contributing to financial issues include dwindling rural populations, bypass behavior (not seeking care at closest hospital), increased reliance on outpatient care, travel distances for patients and health professional shortages.

The COVID-19 pandemic has further amplified these issues. As rural hospitals lost revenue from deferred or cancelled elective services, they had to also purchase personal protective equipment and other supplies necessary for treating patients suffering from COVID-19—putting the already cash-strapped facilities under further financial strain. Twenty rural hospitals closed in 2020, marking it the worst year of closures since the University of North Carolina and N.C. Rural Health Research Program started tracking in 2005. As of January 2021, more than 800 rural hospitals across 47 states were at immediate or high risk of closure.

State Action

State policymakers have many options available to support and safeguard rural hospitals, including appropriating funds to facilities and providers, exploring Medicaid coverage and eligibility.
Pursuing alternative payment models and supporting technical assistance to hospital staff and administrators.

Appropriating Funding: Policymakers can provide grants and funding opportunities to struggling facilities to ensure they remain solvent and continue treating patients. Georgia’s Rural Hospital Stabilization Grant Program allocates $750,000 in state funding to rural hospitals designated by the legislature annually. The funding supports hospitals in developing sustainability plans that use a more decentralized model of care known as “hub and spoke,” which can relieve financial pressures on small rural hospitals and ensure patients are being treated in appropriate settings. Kentucky HB 387 Establishes a rural health loan fund consisting of state appropriations, contributions, donations, and federal funds. Loans may be used to maintain or upgrade facilities, maintain or increase staff or provide health care services not presently available at a rural hospital.

Policymakers have also provided enhanced funding to other rural health facilities, such as community health centers or rural health clinics. Wyoming SF 51 authorized grants of up to $400,000 to community health centers and rural health clinics for major renovations and facilities construction.

Bolstering Medicaid Coverage and Eligibility: A Health Affairs study identifies expanding Medicaid eligibility as one option to help keep rural hospitals financially solvent. As of 2021, 39 states and the District of Columbia have adopted Medicaid expansion. States that did not expand Medicaid eligibility experienced a greater rate of rural hospital closures than those that did, and rural hospital financial viability was lower in states that had not expanded Medicaid eligibility. Additionally, expanding Medicaid eligibility may increase coverage for rural residents, potentially reducing the amount of uncompensated care for hospitals.

Pursuing Alternative Payment Models: States have also developed unique payment models for rural hospitals. The Pennsylvania Rural Health Model transitioned participating rural hospitals from fee-for-service to global budget payments. Rather than paying for each individual service, participating payers—including Medicare, Medicaid and private insurers—provide each hospital a fixed payment to cover all inpatient and hospital-based outpatient services. Pennsylvania Act 108, enacted in 2019, created the Rural Health Redesign Center Authority that administers the program.

Supporting Technical Assistance: State legislatures are also enacting policies providing targeted technical assistance to rural hospitals. These policies often include establishing task forces, special committees, or additional state resources to assist struggling rural hospitals. For example, Mississippi HB 94 established the Center for Rural Health Innovation to provide expert analysis, training opportunities, telehealth investments and other guidance to rural hospitals, clinics and health centers. Tennessee HB 2326 established the Rural Hospital Transformation Program to provide targeted hospitals with the technical support necessary to develop strategic plans for preserving health care service and transitioning to a more sustainable business model. Vermont HB 528 created the Rural Health Services Task Force to identify ways to sustain the state’s rural health care system and ensure it provides affordable, high-quality care.

Federal Action

The Health Resources and Services Administration’s Federal Office of Rural Health Policy (FORHP) administers many rural hospital programs that offer grants and numerous programs to support rural facilities. These include the Medicare Rural Hospital Flexibility Grant, Small Rural Hospital Improvement Program (SHIP) and the Rural Health Research Gateway.

In 2020, FORHP received $150 million through the Coronavirus Aid, Relief and Economic Security (CARES) Act to assist hospitals funded through the SHIP program during the COVID-19 public health emergency. The funding supported facilities in procuring personal protective equipment as well as building testing and treatment capacity.

The Pennsylvania Rural Health Model emerged from collaboration between the state and the Center for Medicare and Medicaid Innovation (CMMI), which has also worked with other states to test over 40 different payment methods. CMMI also administers the Rural Community Health Demonstration to test the feasibility and advisability of cost-based reimbursement for small rural hospitals.

On Jan. 14, 2021, the US Department of Labor awarded $40 million in H-1B Rural Healthcare Grant Program funding to state, local, private and tribal partners working to address rural health care workforce shortages. The funds will go towards creating sustainable employment opportunities and training programs for health care workers serving rural populations.

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