Information Briefing:

Financial Condition of Virginia's Rural Hospitals

Analyst: Mayesha Alam

Study purpose

The JCHC directed staff to:

- Describe financial and operational trends of rural hospitals nationwide and in the Commonwealth
- Describe frameworks that analyze rural hospital insolvency risk
- Assess the risk of rural hospital insolvency in the Commonwealth through targeted frameworks
- Describe unique characteristics and priorities of rural hospitals in Virginia that are at greatest risk of insolvency or closure

Study approved by Commission for the 2026 workplan on October 22, 2025.

Findings in brief

- Rural hospitals are at risk of financial distress and closure nationwide
- Rural hospitals' risk of financial distress or closure can be identified through analysis of financial performance indicators
- Financial and operational trends across Virginia's highest risk rural hospitals reflect statewide patterns

Agenda

Operational and financial context for rural hospitals

Frameworks for analysis of rural hospital financial performance

Financial and operation trends across Virginia’s highest risk rural hospitals

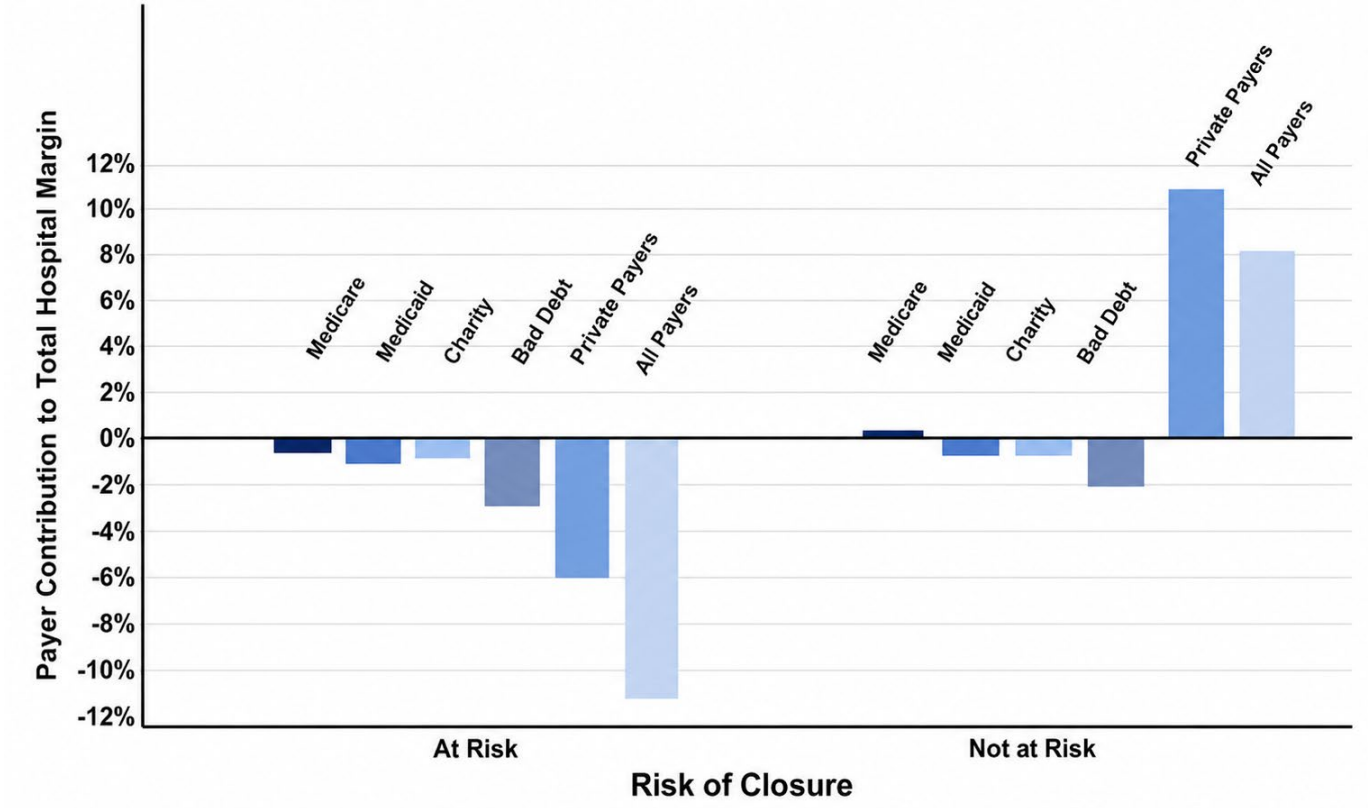
Rural hospitals provide an array of essential health care services

- Hospitals provide a range of emergency, inpatient, and outpatient services
- Rural hospitals, located outside of metropolitan areas, may be the sole provider of hospital services in their communities
- 36 rural hospitals operate in Virginia

Rural hospitals face unique challenges that increase risk of financial strain

- Low patient volumes, smaller capacity, and fewer service lines result in fewer opportunities for reimbursement
- Reimbursement amounts are often insufficient to cover the cost of services provided
  - High proportion of patients are covered by Medicare and Medicaid, which may reimburse below the actual cost of care
  - Smaller rural hospitals lack negotiating power to secure favorable reimbursement rates from private health carriers

Private insurance reimbursements do not uniformly stabilize rural hospitals



The bars show the median profit or loss on services delivered to patients with each type of insurance in each group of rural hospitals.

SOURCE: CHQPR, CMS Cost Report Data, 2024-25

Rural hospital operating costs continue to increase

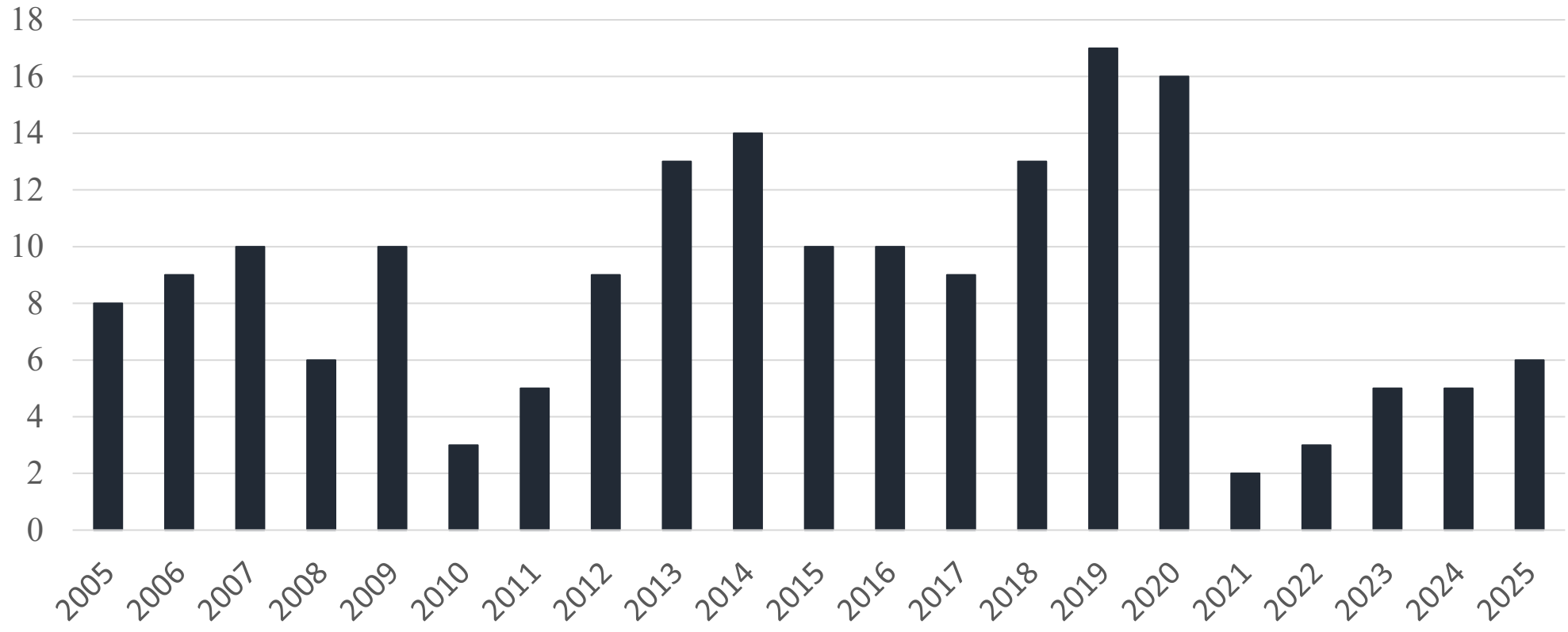
- Rural hospitals must maintain facilities, equipment, and staff to provide health care services
- Labor expenses often account for more than half of rural hospital operating costs
  - Competition for providers increases recruitment and retention costs
  - Reliance on contract staff further increases cost of providing care
- Rural hospital operating costs continue to rise as inflation increases the cost of medical supplies, pharmaceuticals, and contracted services

Federal payment models seek to reduce rural hospital financial challenges

Payment Model	Number of Rural Hospitals
Critical Access Hospital	8
Sole Community Hospital	13
Medicare Dependent Hospital	6
Rural Referral Center	7

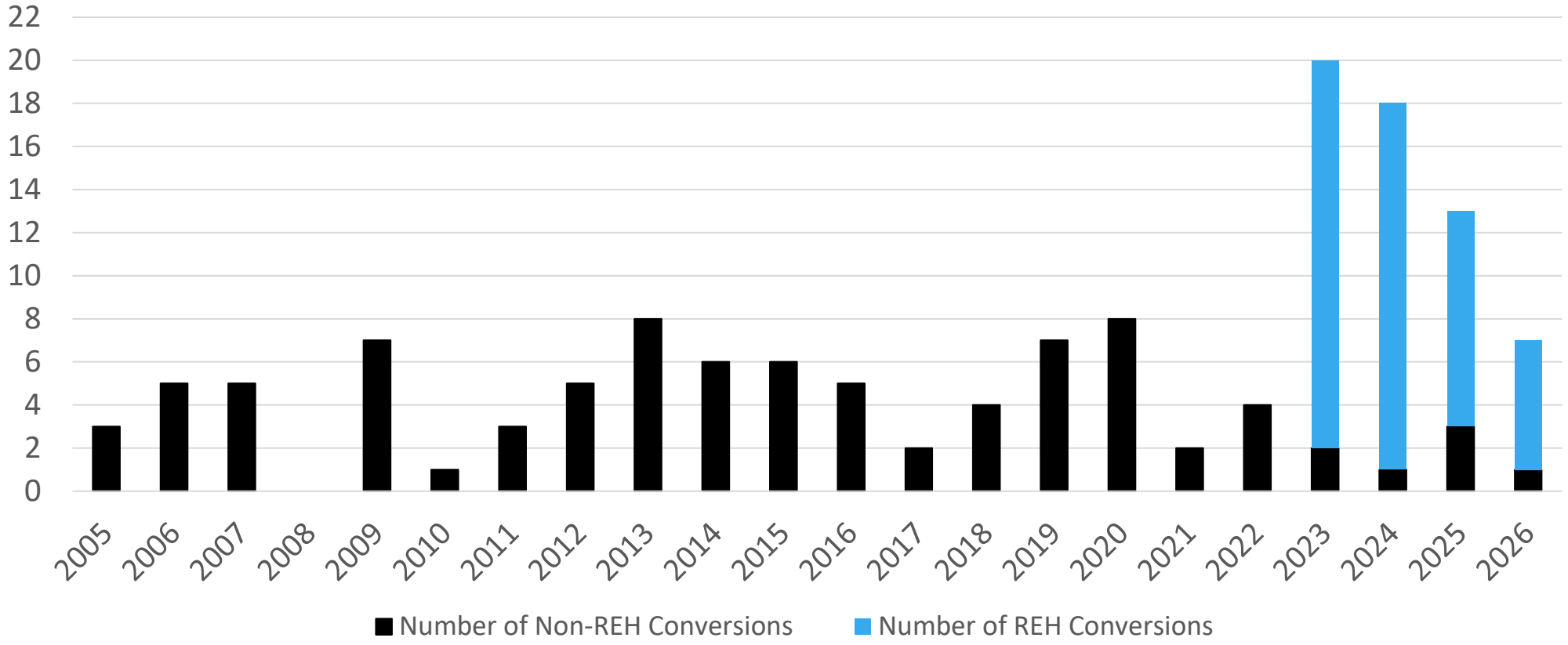
JCHC staff analysis of Virginia Health Information Annual Licensure Survey Data, 2024 and UNC Sheps Center FDI Data, 2025-2026 (Malone TL, Pink GH, Holmes GM. An Updated Model of Rural Hospital Financial Distress. Journal of Rural Health, 2024. doi: 10.1111/jrh.12882). (Note: some hospitals have multiple designations and are counted for each designation)

Since 2005, 108 rural hospitals have closed in the United States



SOURCE: Center for Healthcare Quality & Payment Reform, Cecil G. Sheps Center for Health Services Research, CMS Data 2005-2025

Since 2005, 139 rural hospitals have eliminated inpatient services



SOURCE: Center for Healthcare Quality & Payment Reform, Cecil G. Sheps Center for Health Services Research, CMS Data 2005-2025 (Note: REH Conversion = CMS designated hospitals that eliminated inpatient services to provide emergency and outpatient offerings

Closures and service cuts negatively impact patients and communities

- Patients must travel longer distances to access services
  - Patients who lack resources to overcome financial or travel-related barriers may postpone or forgo care
  - Delays in accessing care may negatively impact health outcomes for patients with time-sensitive or clinically complex needs
- “Bystander” hospitals absorb displaced patients and face higher costs as emergency visits and inpatient admissions increase
- Communities experience economic consequences as closures eliminate a major employer and economic driver

Agenda

Operational and financial context for rural hospitals

Frameworks for analysis of rural hospital financial performance

Financial and operation trends across Virginia's highest risk rural hospitals

Analysis of financial performance trends can identify at risk hospitals

- Revenue, expenses, and operating margins indicate whether a hospital can cover the costs of doing business
- Liquidity measures such as working capital, days cash on hand, and net assets indicate a hospital's ability to meet short-term financial obligations
- Analysis of population characteristics, payer mix, and operating conditions provide insight into potential demand for services and sources of income

The CHQPR framework identifies rural hospital at risk of *closure*

- Uses patient service operating margins and net assets to evaluate profitability and financial reserves and classify hospitals based on presence of risk factors:
  - "Risk of closure" when operating margins are negative or net assets are low
  - "Immediate risk of closure" when operating margins are negative and net assets are low
- Identifies 8 Virginia rural hospitals as "at risk of closure" and 5 Virginia rural hospitals as at "immediate risk of closure"

CHQPR = Center for Healthcare Quality and Payment Reform

Sheps Center's FDI identifies rural hospitals at risk of financial *distress*

- Uses financial, operational, and market level indicators to assess financial stability and risk of distress
- Classifies hospitals based on presence of risk factors: lowest risk, mid-lowest risk, mid-highest risk, and highest risk of experiencing financial distress
- Identifies 4 Virginia rural hospitals as at highest risk and 8 at mid-highest risk

FDI = Financial Distress Index

Seven rural hospitals in Virginia are classified as being at highest risk

Hospital	CHQPR Closure Risk	FDI Distress Risk
Bon Secours Southampton Memorial Hospital	Immediate Risk of Closure	Highest Risk of Distress
Bon Secours Southern Virginia Medical Center	At Risk of Closure	Highest Risk of Distress
Carilion Giles Community Hospital	Immediate Risk of Closure	Mid-Highest Risk of Distress
Carilion Tazewell Community Hospital	Immediate Risk of Closure	Highest Risk of Distress
Sentara Halifax Regional Hospital	Immediate Risk of Closure	Mid-Highest Risk of Distress
VCU Health Community Memorial Hospital	At Risk of Closure	Highest Risk of Distress
VCU Health Tappahannock Hospital	Immediate Risk of Closure	Mid-Highest Risk of Distress

SOURCE: JCHC staff analysis of CHQPR Data on Rural Hospitals and Malone TL, Pink GH, Holmes GM. An Updated Model of Rural Hospital Financial Distress. Journal of Rural Health, 2024. doi: 10.1111/jrh.12882. *(Note: CHQPR highest risk category = Immediate Risk of Closure; FDI Highest Risk Category = Highest Risk of Distress)*

Agenda

Operational and financial context for rural hospitals

Frameworks for analysis of rural hospital financial performance

Operational and financial trends across Virginia’s highest risk rural hospitals

Despite revenue growth, highest risk rural hospitals report negative margins

- All seven highest risk rural hospitals reported negative operating margins in 2024 compared to three that reported negative operating margins in 2015
- Shifting payer mix marked by decreasing commercial coverage, increasing number of Medicare and self-pay patients reduces income from reimbursements

Shifting service capacity and utilization reflects increasing financial pressures

- Declining inpatient and obstetrical capacity and utilization indicates shift away from more expensive, resource intensive services
- Variability in surgical capacity and utilization reveals volatility, challenges of sustaining service lines
- Stable ED utilization indicates their importance in meeting patients' need for unscheduled and emergent care

ED = Emergency Department

Staffing challenges have accelerated service line reductions

- Highest risk rural hospitals report eliminating or reducing services as recruiting and retention challenges limit available workforce
- Highest risk rural hospitals have adopted various strategies to fill gaps when services are eliminated or reduced
  - Telehealth services and modified staffing models provide some access to care despite lack of on-site providers
  - Transfer agreements connect patients to available services at other health care facilities
  - Investments in workforce pipeline build future workforce

Outpatient services are a significant and increasing source of revenue

- Outpatient revenue has grown substantially while inpatient revenue has stagnated or declined
- Despite outpatient growth, all seven hospitals reported operating losses in 2024, indicating outpatient expansion has not offset structural cost and reimbursement gaps

System affiliation may be a protective factor for highest risk rural hospitals

- All seven highest risk rural hospitals are affiliated with a larger health system
- System affiliation may function as a protective factor through cross-subsidization, capital support, and staffing stabilization

Patterns across highest risk hospitals are consistent with statewide trends

- Since 2015, inpatient, obstetrical, and surgical capacity and utilization have declined for all rural hospitals while ED visits remained relatively stable
- As inpatient utilization has declined, outpatient services have emerged as a primary source of rural hospital revenue
  - In 2024, outpatient revenue accounted for nearly 75% of rural hospitals' total gross revenue across the Commonwealth

Shifts towards outpatient care prevents closures but narrows access to services

- Virginia's rural hospitals are increasingly shifting towards outpatient and emergency-centered models, rather than closing outright
- Shifting focus to outpatient and emergency services preserves access to some essential health services while eliminating access to others

Federal policy changes may pose additional risks

- H.R. 1 (2025) reduces Medicaid funding and limits supplemental and state-directed payment tools
- Changes to Medicare payments creates additional risks for rural hospitals that rely on public health insurance to support access to health care services
- The Rural Health Transformation Fund is unlikely to offset structural funding losses or prevent continued service restructuring

Opportunity for public comment

- Submit written public comments by close of business on Friday, June 12th 2026

  Email: jchcpubliccomments@jchc.virginia.gov

  Mail: 411 E. Franklin Street, Suite 505

  Richmond, VA 23219

NOTE: All public comments are subject to FOIA and must be released upon request.

Questions?