Financial Impact Analysis on Hospitals in Rhode Island, 2022

Prepared for
Hospital Association of Rhode Island

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Executive Summary

The Hospital Association of Rhode Island (HARI) engaged Health Management Associates (HMA) to complete a series of interviews with hospital chief financial officers (CFOs) representing each hospital and system of care in the state of Rhode Island to gather information on the financial impact of workforce challenges. This report follows a 2020 analysis HMA conducted, which focused on the COVID-19 pandemic’s financial effects on hospitals in Rhode Island. The qualitative and quantitative data in this paper will help inform policy discussions with local, state, and federal authorities.

Since the COVID-19 pandemic, hospitals across the country have struggled to meet both internal and external pressures. Hospitals have shouldered the burden of increased expenditures that have outpaced hospital payment rates, thereby yielding a precarious financial margin. This trajectory is unsustainable. Currently, more than 33 percent of the nation’s hospitals are operating in negative margins.1 As of October 2022, median hospital operating margins across the country were said to be -0.5 percent—much lower than the 4 percent median hospital operating margins the previous year.2 The likely sources of these negative operating margins are increased labor costs and reduced revenue.

In fiscal year (FY) 2022, hospitals in Rhode Island saw an astronomical operating loss of $94,083,966. Though disturbing, such losses would have been more damaging if not for the $45 million in COVID relief funds the Rhode Island General Assembly allocated in June. As the country desperately looks to push past the COVID era, its effects linger, eroding the foundation of the health care system.

Hospitals remain at the forefront of the pandemic, and because of the ongoing impact of the COVID-19 pandemic, continue to face systematic challenges. Three primary issues are influencing the bottom line at Rhode Island hospitals:

- **Workforce shortages**: In addition to the nationwide nursing shortage, hospitals in Rhode Island are suffering across the board from the high turnover of full-time and part-time staff, both administrative and clinical, including computed tomography (CT) techs, medical secretaries, occupational therapy assistants, revenue cycle administrators, and physicians. Costs associated with recruiting and retaining staff, incentives, and benefit payments account for 50 percent of all hospital expenses.1 Higher pay in other professions or settings, employee burnout, and pipeline limitations are among the reasons for the mass exodus of hospital staff. Hospital staff turnover rate in the Northeast region of the country in 2021 and 2021 was an astonishing 25.7 percent. Though lower than the national average of 25.9 percent, the Northeast still saw the largest percent change (10%). Moreover, as workers begin to make more demands, like shifting to per diem pay rather than full-time work, hospitals bear the burden of higher pay scales but fewer staff.

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• **Travel company costs:** Because of nationwide healthcare workforce shortages, particularly in nursing, hospitals have relied on traveling workers to fill staffing gaps. The cost of contracting with travel staff is double to triple the amount of paying employed staff salaries, making this solution financially infeasible. Moreover, travel staffing agencies have continued to corner the market in these unprecedented times, as they continue to negotiate inflated rates at a time when nurses have become a crucial, yet limited, resource in the health care sector. Staffing firms saw significant revenue growth as high as $1.1 billion in the fourth quarter of 2021 alone.¹ This competition is making it particularly difficult for hospitals to retain administrative and clinical registered nurses (RNs) who typically comprise the bulk of the hospital nursing workforce.

• **Inflation:** Costs for hospital supplies, energy, labor, and food have increased dramatically, particularly in 2022. Inflation rates continue to cripple the nation’s economy, making already limited resources scarcer and consequently more expensive. Inflated prices and supply shortages have had a particularly acute impact on health care. Medical supply expenses for hospitals were 15.9 percent higher by the end of 2021 than before the pandemic.¹ National inflation rates also drive salary and cost of living increases. Hospitals must reevaluate profit margins and cut costs without jeopardizing the quality of patient care.

Hospitals and systems have sought to meet each of these challenges over a trying two years. Hospitals have tried using traditional approaches as well as more novel solutions. Despite their best efforts, however, hospitals in Rhode Island continue to experience an unfavorable financial impact.
Introduction

Hospitals in Rhode Island have shouldered tremendous financial burden over the last three years as a downstream result of the COVID-19 pandemic. Despite federal aid and the official end of the National and State Public Health Emergency (PHE) on May 11, 2023, hospitals anticipate sustained negative financial trends. The “unwinding” of the PHE flexibilities, which begins April 1, 2023, also brings new challenges, such as ceasing enhanced federal rates, which, coupled with the ongoing issues described in this report, further strains the ability of hospitals in Rhode Island to recover from the negative impact of the pandemic.

Although the extent and severity of the pandemic appears to be waning, hospital leaders in Rhode Island remain concerned about the lingering workforce shortages, wage wars, traveling nurse costs, and additional downstream effects—specifically, their impact on the overall economy and the financial solvency/stability of the health care system.

Since the pandemic, nurses have continued to serve on the front lines, providing necessary care to an overwhelming number of sick individuals. Emergency departments (EDs) have struggled to keep pace with demand, leaving many nurses feeling symptoms of burnout, which, in turn, has led to a decline in retention and high turnover rates. As retention rates continue to diminish, nurses often find themselves working in less-than-ideal environments, forcing many to step into roles outside of their usual positions. The American Nurses Foundation assessed COVID’s two-year impact and reported that 52 percent of nurses are considering leaving their current position, most commonly because of insufficient staffing. Without proper staffing, hospitals in Rhode Island will be vulnerable to further financial losses.

Hospitals in Rhode Island have attempted numerous mitigation strategies to address workforce issues. The Hospital Association of Rhode Island, advocated with State of Rhode Island leaders to promote a statewide public/private partnership on behalf of Rhode Island hospitals. The initiative kicked off with a Healthcare Workforce Summit on April 1, 2022, that included the partnership with Rhode Island health and human services and post-secondary education leaders. The focus of the workgroup is on developing short- and long-term recommendations and solutions to the healthcare and human services workforce issues.

Hospitals, unlike other businesses, are limited in their ability to negotiate increase reimbursement rates. Hospital payment rates are set by federal, state, commercial insurance plans and the Rhode Island Office of the Health Insurance Commissioner. Hospitals have a limited ability to balance the effects of inflation, cover the increased cost of a 24/7 workforce, supplies, equipment, information technology, energy, food, and other critical components of hospital operations. Increased cost has caused significant financial challenges to the hospital industry at a time of high inflation and recovery from COVID-19.

Hospitals have sought innovative ways to cut costs in other business lines to help ease their current financial strains, including finding new energy sources, retaining supplemental supply contracts, and hiring flexible workers. However, without greater support, hospitals will continue to experience irreparable consequences for their staff and the people they serve.

HMA interviewed top executives from hospitals across the state to further understand how hospitals and hospital systems in Rhode Island are meeting these challenges. This report provides insight into the workforce-related issues, particularly how nursing shortages are affecting these institutions.

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Approach

Between December 1, 2022, and December 16, 2022, HMA interviewed Chief Financial Officers (CFOs) representing all of the hospitals and hospital systems in Rhode Island. The interviews focused on:

- Labor challenges facing hospitals (current versus pre-pandemic).
- Service reductions or eliminations related to workforce shortages.
- Pharmacy and supply expense challenges (current versus pre-pandemic).
- Impact on inpatient and outpatient volume (current versus pre-pandemic).
- Steps taken to manage expenses because of changes in patient volume and uncertainty about the future workforce.
- Financial impact to date on operating income or loss, decline in revenue, changes in expense, federal relief (current versus pre-pandemic).
- Projected results for the remainder of the fiscal year and future.

HMA then conducted limited research based on available sources to provide a financial analysis of FY 2022. Our sources included:

- Financial data received from the Hospital Association of Rhode Island
- Publicly available articles and reports

Common Themes

All interview participants voiced common concerns, which are outlined below.

Travel Nursing

Problem Statement: Severe staffing shortages have forced hospitals to rely on expensive travel workforce companies. In January 2022, hospitals across the country dispersed a median average of 38.6 percent of their total nurse labor expenses to travel nurses—far more than the 4.7 percent spent on these services in 2019.¹

Travel nursing is a commonly used strategy to mitigate workforce deficits. A report based on a 2022 survey that the American Nurses Foundation conducted highlights various solutions to workforce challenges. The results are reflected in Figure 1 and demonstrate that contracting with travel nurses is the practice hospitals most frequently adopted to address workforce deficits, followed by increased wages, bonuses, or other incentives for full-time staff.
One leader shared that travel nursing has evolved over the years. In the past, travel nurses accepted these jobs to explore and see the world. During the pandemic and moving forward, hospitals are seeing full-time staff leave their hospital positions, only to join a travel agency for higher pay and more favorable schedules and then return to work as a traveler at the same hospital. Hospitals pay travel nurses upwards of double to triple the hourly salary of full-time staff, which translates to a significant portion of hospitals’ annual expenditures. As of December 2022, travel nurses in Rhode Island received weekly pay of $3,273.4

The use of travel nurses also has affected employee morale. Employed staff are aware that travel nurses are paid substantially higher wages and frequently assigned to cases of lower acuity. This situation has led to low morale among permanent staff and further disconnection from their hospital leaders who are continuously seeking innovative solutions to appease and retain their staffs.

Mitigation Steps: Hospitals are working to decrease their reliance on travel staff through recruitment and retention strategies described in the staffing shortage section. The challenge lies in meeting patient demand while full-time vacancies persist.

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Staffing Shortage

Problem Statement: Hospitals are suffering from staffing shortages at all levels. As of January 2022, 31 percent of hospitals reported critical staffing shortages. Workforce shortages have had a negative impact on overall hospital operations, resulting in temporary and long-term closure of surgery centers, operating suites, and specialty units, among other challenges. Hospital units that absorb overflow because of strategic unit closure often experience workforce strain due to heavy patient loads and complex acuity. Hospitals in Rhode Island are no exceptions to the national issue of the healthcare worker shortage. Factors contributing to the current shortage include many workers who are near or at retirement age, young nurses leaving the profession (particularly hospital work), lack of nursing school faculty to meet the demand of people applying for admission.

Across the country, turnover rates have been high, partly because of nurses leaving their RN roles only to return as travel nurses. Table 1 shows that the Northeast region of the U.S. saw a 12.2 percent change in RN turnovers in 2020–2021—the greatest across all regions.

Table 2. RN Turnover Rates by Region, 2020–2021

<table>
<thead>
<tr>
<th>REGION</th>
<th>STAFF RN TURNOVER</th>
<th>FULL/PART TIME RN TURNOVER</th>
</tr>
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<tbody>
<tr>
<td>North East – (CT, DC, DE, MA, MD, ME, NH, NJ, NY, PA, RI &amp; VT)</td>
<td>25.4% (+12.2%)</td>
<td>20.9% (+8.9%)</td>
</tr>
<tr>
<td>North Central – (IA, IL, IN, KS, MI, MN, MO, MT, ND, NE, OH, SD, WI &amp; WY)</td>
<td>24.5% (+4.5%)</td>
<td>20.5% (+3.2%)</td>
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<tr>
<td>South East – (AL, FL, GA, KY, MS, NC, SC, TN, VA &amp; WV)</td>
<td>29.9% (+5.0%)</td>
<td>25.0% (+4.2%)</td>
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<td>South Central – (AR, CO, LA, NM, OK, &amp; TX)</td>
<td>25.6% (+6.4%)</td>
<td>21.5% (+5.3%)</td>
</tr>
<tr>
<td>West – (AK, AZ, CA, HI, ID, NV, OR, UT &amp; WA)</td>
<td>23.8% (+8.4%)</td>
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<td>&lt;200 Beds</td>
<td>23.2% (+3.8%)</td>
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<td>200-349 Beds</td>
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NATIONAL AVERAGE  | 27.1% (+8.4%) | 22.5% (+4.8%) |

RNs are by far the most challenging healthcare professionals to locate, recruit, and retain; however, Rhode Island hospitals are also experiencing shortages in multiple crucial staff roles, including:

- Respiratory therapists
- Nursing assistants

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- Surgical technicians
- Radiology technicians
- Environmental services staff
- Lab technicians
- Diagnostic imaging professionals
- Environmental services staff
- Residential assistants and case managers
- Occupational therapy assistants
- Mental health workers
- Home care providers
- Medical assistants
- Medical secretaries
- Nurse leaders

The hospital staff turnover rate in the Northeast region of the country between 2020 and 2021 was an astonishing 25.7 percent. Though lower than the national average of 25.9 percent, the Northeast still saw the largest percent change (10%). Moreover, as workers begin to make more demands, like shifting to per diem pay rather than full-time salaried work, hospitals bear the burden of higher pay scales yet less workforce.

Table 3. Hospital Staff Turnover Rates by Region, 2020–2021

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NATIONAL AVERAGE | 25.9% (+6.4%) | 22.0% (+5.3%) |
Hospitals in Rhode Island all share in the struggle to fill vacant positions, which have grown in some cases by 25 percent or more since the start of the pandemic. Staff vacancies affect hospital service delivery and operations, which layers additional financial strain through decreased revenue potential.

Increased salary and benefits no longer are proving to be an effective tool in attracting needed talent or improving productivity. Instead, hospital executives have found that burnout and lack of work-life balance are undermining their efforts. Moreover, competition from intrastate and out-of-state (for example, Massachusetts) competitors and new work-from-home options for administrative roles are further driving the workforce shortage. Some hospital executives have expressed the intent to hire licensed practical nurses (LPNs) as a solution; however, due to a small number of LPNs in the state, hospitals are competing with local skilled nursing facilities, which typically offer higher wages.

Another phenomenon affecting hospitals is the general lack of non-clinical workers. Executives shared that since the pandemic, it has become increasingly difficult to find non-clinical service members, such as security guards and workers to do general maintenance, which has affected day-to-day hospital operations. One executive said that finding service people, such as electricians who can fix compromised equipment, has caused further disruptions. Since the pandemic, the availability of apprenticeships for service workers has waned, resulting in a shortage of basic service personnel.

Yet another factor is the impact COVID-19 had on access to behavioral health care. The pandemic exacerbated the need for behavioral health services, and individuals with existing disorders faced additional barriers to care. Compounded by the ongoing shortage of behavioral healthcare workers and limited access to care in the community, hospitals are experiencing an increase in both demand for behavioral health services and high patient acuity in emergency departments.

**Mitigation Steps:** Examples of the employee engagement and retention strategies include a range of initiatives, such as sign-on bonuses upon hire, retention bonuses for employees who remain for a specified period, increased incentive payments for night and weekend shifts, and student loan forgiveness programs. These strategies have been necessary to stay competitive in the market but add to the skyrocketing operational costs. Other initiatives include employee recognition programs and town hall meetings with executive leadership to ensure transparency and foster a positive workplace culture.

Hospitals have responded to the staffing challenges through collaboration with neighboring Rhode Island facilities. Hospitals began communicating routinely about transferring patients to centers with available beds. Other strategies include partnering with Rhode Island nursing and trade schools that provide necessary hands-on experience and expose students to the potential benefits of working at the hospitals after graduation. The hospitals have opened training experiences to employed staff and pathways to education opportunities (e.g., unit clerk support to attend nursing or allied health schools). Despite these multifaceted approaches, efforts have fallen short of improving staffing deficits.

Other mitigation strategies include, HARI’s work with healthcare and human services leaders across Rhode Island to form a public/private partnership to address workforce shortages. In April 2022, the public/private partnership kicked off its first Healthcare Workforce Summit, where workgroups began the process to enhance higher education partnerships, build pipelines, and further enhance data collection and analysis.

**Inflation**

**Problem Statement:** According to the Bureau of Labor Statistics, in June 2021–June 2022 the U.S. inflation rate hit 9.1 percent, the highest inflation rate since 1981. As individuals continue to deal with increased costs, so do hospitals.
U.S. inflation rates have contributed to hospital financial challenges and burdens. Though medical care costs typically outpace the rest of the economy, 2022 was a rather unconventional year. Increased energy and food costs factored into a diminishing hospital profit/loss ratio—expenses often hidden from public view. One example is the increasing costs for cafeteria food prepared for patients, visitors, and staff—expenditures that often are overlooked but do affect the bottom line since hospitals prepare thousands of meals per day.

In addition, several hospitals in Rhode Island have union workers. Union contract renewals include percentage increases to align with cost of living, which challenge hospital administrators to balance fair wages with operational budget constraints.

**Mitigation Steps:** Hospitals have responded to these challenges with outside-of-the-box thinking, such as using energy alternatives like supplemental wind power and fuel cells, reviewing contract negotiation opportunities, examining all internal processes for potential waste and opportunity for improvement, and maintaining positive relationships with the local union chapters to improve contract negotiations.

**Supply Limitations**

**Problem Statement:** Supply expenses for hospitals through 2021 were 20.5 percent higher per patient in comparison with the end of year 2019. 6

At the height of the pandemic, the U.S. and the world experienced severe shortages of equipment, medications, and protective gear. When asked about ongoing concerns, the common refrain was that supply adequacy was unpredictable from week to week. Examples include lack of sterilized packages of operating room equipment, which can affect a hospital’s ability to schedule procedures. Pharmaceutical supply shipments have been unpredictable, leaving hospitals with surpluses and then shortages at various times throughout the year. Even crutches have been a problem. At one point, adjustable aluminum crutches were out of stock, so the hospital purchased wooden crutches; however, the staff needed to learn how to properly adjust wooden crutches for patient safety and effectiveness. This example demonstrates how a relatively simple change in equipment due to supply chain issues contributes to the financial challenges facing Rhode Island hospitals.

Supply shortages affect hospital operations directly and indirectly. The reasons for this “domino effect” are complex in nature, ranging from manufacturing challenges caused by lower availability of raw materials, continued COVID-19 illness closures at manufacturers, transportation delays, and overall increase in demand. Hospital executives shared that at the height of the pandemic, they knew which products were in short supply. Now the availability of every commodity has become unpredictable.

A concise list of such vital supplies includes:

- Irrigation tubes
- Catheters
- Needles and syringes
- Assorted wound closure implements

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• Endo-mechanical devices  
• Infant and adult respiratory products  
• Radiopaque  
• Blood tubes  
• Intravenous solutions and tubing  
• Flu test kits  
• Lab reagents  
• Various medical and surgical supplies  
• Medical gases (CO₂, O₂)  
• Personal protective equipment (PPE)

**Mitigation Steps:** Hospitals continue to meet the challenge by exploring alternate suppliers, seeking product substitutes, overstocking items that are typically in short supply, and judicious monitoring of supply use.

**Financial Impact**

Since the start of the COVID-19 pandemic, hospitals have endured increased costs and labor expenses resulting from workforce shortages and greater patient volume, which have led to unsteady year-over-year operational income/profits. Hospitals in Rhode Island have experienced operational losses throughout the year.

In FY 2022, hospitals in Rhode Island saw an astronomical operating loss of $94,083,966. Though disturbing, such losses would have been more damaging if not for the $45 million in COVID relief funds the Rhode Island General Assembly approved in June. As the country desperately looks to push past the COVID era, its effects linger, eroding the foundation of the nation’s healthcare delivery system. Hospitals remain at the forefront of the pandemic and, because of the ongoing impact of the COVID-19 pandemic, continue to face systemic challenges. These sorts of losses are evident across the hospital industry, including across state lines in Massachusetts, where the Mass General-Brigham system alone experienced an astounding $432 million loss.

Hospitals have increased their use of travel nurses to supplement their workforce; however, this practice can have a detrimental effect on long-term profit margins and cause greater financial strain than retaining permanent staff.

According to the U.S. Bureau of Labor, RNs earn an average of $1,591 a week, far less than the $3,204 travel nurses take home weekly. Rhode Island travel nurses make an average of $1,640 a week—a $1,508 difference in pay. Thus, hospitals find it difficult to retain RNs seeking more competitive wages. Moreover, hospitals in neighboring states like Massachusetts offer higher average wages for RNs ($1,858 per week), further fueling competition and exacerbating the exodus from Rhode Island hospitals. Though registered nurses tend to receive more robust benefit packages, including retirement benefits, health insurance, and paid leave, it is clear that benefits fall short in recruiting new nurses to salaried positions.

Because of continuous workforce shortages, hospitals have incurred additional costs related to incentive payments as a means of increasing retention and productivity. Despite significant workforce investments,

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high turnover, and vacancy rates at all levels of staff have continued to cripple hospitals and diminish profit margins. RNs seem to be a particular pain point as hospitals struggle to find nurses willing to be full-time employees instead of travel nurses. This trend is most alarming in Rhode Island, where the RN vacancy rate mirrors and sometimes exceeds the national average of 9.9 percent. Hospitals have sought to overcome this issue by offering tuition reimbursement and sign-on bonuses, but clearly such traditional perks are becoming less attractive to nurses. Unless hospitals can hire more permanent employees, their profit margins will continue to decline, and vacancy rates will remain high.

The most common factors affecting the financial stability of hospitals in Rhode Island are patient volumes and the lack of a diverse patient mix. Hospitals are enduring high costs because of lengthier inpatient stays and an influx of patients who need extended care.

**Conclusion**

The hospital executives whom HMA interviewed expressed appreciation for HARI’s continued involvement and support as they navigate the issues addressed in this report. Despite federal emergency funding and pandemic flexibilities, hospitals in Rhode Island are sustaining revenue losses. The primary contributors to this loss are staffing costs, particularly for travel labor, decreased patient volume and case mix, and inflation.

Although hospitals in Rhode Island have little control over the pandemic, inflation, and the supply of essential personnel, executives shared their tireless efforts to mitigate these three factors through innovation. Their collective goal is to provide excellent care to Rhode Islanders and anyone needing their services.

As this report highlights, hospital advocates, associations, and state health care entities have the opportunity to examine the impact of travel nurses on hospital costs and the clinical workforce. The current rates are unsustainable for any hospital, particularly in the face of a workforce shortage. Revisiting reimbursement rates from insurers is another area where collective energy and advocacy may help to shape an improved financial future. Support from state and federal leaders, the business community, and commercial insurers is critical for the financial stability of the industry.