Massachusetts Taxpayers Foundation

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Understanding the Public Costs of the Steward Crisis

In May of 2024, Steward Health Care announced that it had filed for bankruptcy protection; beginning a process through which the for-profit health system looked to restructure its debt and sell or close assets, including seven Massachusetts hospitals. The bankruptcy announcement, as well as the potential harm that Steward's collapse would have on the state's health care ecosystem, necessitated the development of a process to facilitate ownership transitions for Steward hospitals. Six months later, two Steward hospitals (Nashoba and Carney) have closed, while five hospitals (with two Holy Family locations) have been transferred to new owners.

The fallout from the Steward Health Care crisis in Massachusetts touches myriad health policy areas, including health care access, quality, financing, and oversight. However, the fate of former Steward hospitals also has major public finance implications during a time of great fiscal uncertainty in the state. This Bulletin outlines what we know – and what we don't – about the state's financial plan to transfer the operations of five hospitals to new providers.

Background

Steward Health Care declared bankruptcy in May of 2024, placing the future of the seven Steward hospital systems operating in Massachusetts in doubt. Since then, Steward has closed two hospitals - Nashoba and Carney – while five have been transferred to new operators.

Summary of Steward Hospital Transfers

Hospital	Location	New Operator
Holy Family	Haverhill & Methuen	Lawrence General Hospital
St. Anne's	Fall River	Brown University Health
Morton Hospital	Taunton	Brown University Health
Good Samaritan	Brockton	Boston Medical Center
St. Elizabeth's	Boston	Boston Medical Center

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These transfers to new operators come at significant capital and operating costs to the state to ensure continuation of health services at these facilities.

Basic Finances

The state's financial commitments and obligations related to the continued operations of the five hospitals listed above can be organized into three broad categories:

- Financial packages arranged for new hospital operators;
- Transitional costs during the changeover to new operators; and
- Land acquisition.

Financial Packages for New Hospital Operators

During the bankruptcy process, the state developed hospital and region-specific guidelines outlining the financial support that the state would be willing to provide to new operators to make the transfer of Steward hospitals feasible. These arrangements, which were ultimately codified in contractual agreements with each new operator, provide up to three years of financial assistance through two primary mechanisms: Medicaid payment advances and supplemental payments.

Medicaid Advances ($115 million in FY 2025 advanced payments)

Medicaid advances have been a tool used by the state to provide hospitals, or other providers, with short-term cash flow assistance. According to the codified agreements between the state and the new hospital operators, the state will provide an up-front payment for future Medicaid reimbursed services which have not yet been provided. As the provider submits services for reimbursement in the future, the state will not pay for services up to the amount of the advanced payment. In the case of the five former Steward hospitals and their new owners, the state has committed to providing $115 million in advance payments in FY 2025.

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Summary of Medicaid Advance Payments

Steward Hospital	New Operator	FY 2025 Advance	FY 2026 Offset	FY 2027 Offset
Holy Family	Lawrence General	$28.0	-$14.0	-$14.0
St. Anne's & Morton	Brown University Health	$27.0	-$13.5	-$13.5
Good Samaritan	Boston Medical Center	$30.0	-$15.0	-$15.0
St. Elizabeth's	Boston Medical Center	$30.0	-$15.0	-$15.0
Total		**$115.0**	**-$57.5**	**-$57.5**

$ in millions

The advance payments will negatively impact the MassHealth budget in FY 2025 – as payments will be $115 million higher than would otherwise be the case, and federal reimbursement for those payments will not be received until a reimbursable claim is ultimately submitted – but will provide the state with savings (in the form of claims unpaid) in future fiscal years.

Supplemental Payments ($582 million in additional payments between FY 2025 and FY 2027)

Supplemental payment agreements are the other component of the financial packages arranged between the state and new hospital operators. The level of these payments varies depending on the size and financial fundamentals of the former Steward hospital, as well as the underlying health care economies of the region. The more challenging the financial and cost context of the region and the hospital, the higher the supplemental payment the state was willing to commit. The largest supplemental payments have been for the Holy Family Hospitals (acquired by Lawrence General) and St. Elizabeth's (acquired by Boston Medical Center).

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Summary of Supplemental Payments

Hospital	New Operator	FY 2025	FY 2026	FY 2027	Total
Holy Family	Lawrence General	$125.0	$40.0	$0.0	$165.0
St. Anne's & Morton	Brown University Health	$10.0	$10.0	$10.0	$30.0
Good Samaritan	Boston Medical Center	$97.0	$40.0	$0.0	$137.0
St. Elizabeth's	Boston Medical Center	$95.0	$105.0	$50.0	$250.0
Total		**$327.0**	**$195.0**	**$60.0**	**$582.0**

$ in millions

Combined, the state is committed to $582 million in supplemental payments over the next three years. The Executive Office of Health and Human Services (EOHHS) believes that these payments will be eligible for Medicaid reimbursement and estimates the net state cost at $261.9 million over three years.

Transitional Expenses ($72 million in FY 2025 costs)

Outside of payments made to new operators, the state's financial outlay also includes the cost of operating Steward facilities between August and the end of September, when Steward's financing had collapsed and new operators had not yet been arranged. The cost of keeping these six hospital campuses open cost approximately $40 million per month. These expenditures are also eligible for Medicaid reimbursement, making the net state cost $32.4 million.

Land Acquisition (cost unknown)

The final expected cost related to the Steward bankruptcy is for the eminent domain taking of the St. Elizabeth's campus. Eminent domain powers allow a public entity to take ownership of private land for a public use. In cases of eminent domain takings, the prior owner of the land must be compensated for the fair value of the property. In the case of St. Elizabeth's, the state has taken the property while authorizing Boston Medical Center to operate the hospital on the site. The prior owner of the land, St. Elizabeth's LLC, who took title from its affiliate Apollo Global Management, is disputing in court the state's power to take the land to give it to another entity. Also at dispute is the value of the property.

The state initially offered $4.5 million for the property, which was rejected. The state estimates the value of the property at $22 million, but Apollo estimates its value at closer to $200 million. The Boston Assessor's Office lists the assessed value of the land and property at $191 million.

The ultimate price of the property will be paid by the state without any offset from federal reimbursement.

Understanding the Preliminary Net State Cost

In total, the state has committed close to $800 million in resources to transfer the operations of five former Steward hospitals (with two Holy Family locations).

Summary of State Outlay (Gross Costs)

	FY 2025	FY 2026	FY 2027	Total
Advance Payments	$115.0	$0.0	$0.0	$115.0
Supplemental Payments	$327.0	$195.0	$60.0	$582.0
Transitional Operations	$72.0	$0.0	$0.0	$72.0
Eminent Domain	$22.0	$0.0	$0.0	$22.0
Total	**$536.0**	**$195.0**	**$60.0**	**$791.0**

$ in millions

The net state cost, however, will be less than the $791 million shown above, due to two offsetting factors:

- **Recoupment of advance payments** – because the advance payments made in FY 2025 will allow the state to forego future claims payments in FY 2026 and FY 2027, the net cost to the state over three years will be $0.
- **Federal reimbursement** – EOHHS believes that all supplemental payments and transitional operation costs will be subject to Medicaid reimbursement. Using an

average reimbursement rate of 55 percent, this means that costs will be offset by a further $359.7 million over three years.

Once these offsets are accounted for, the net state cost is as follows:

Summary of Net State Costs

	FY 2025	FY 2026	FY 2027	Total
Gross Cost	$536.0	$195.0	$60.0	$791.0
Repayments	$0.0	-$57.5	-$57.5	-$115.0
Anticipated Reimbursement	-$219.5	-$107.3	-$33.0	-$359.7
Total Net Cost	**$316.6**	**$30.3**	**-$30.5**	**$316.3**

$ in millions

As shown in the chart, the largest financial outlay for the state will occur in FY 2025, with more than $300 million in net state cost. If these assumptions hold, the net state cost beginning in FY 2026 will be about $30 million and there would be no new net state cost in FY 2027.

The FY 2025 costs will primarily need to be covered through supplemental spending vehicles; aside from approximately $25 million in new hospital assessment revenue that the state plans to apply to Steward costs, no other resources related to the Steward bankruptcy filing were included in the FY 2025 budget signed by the Governor.

Unknown Cost Impacts

Over the next three years, the state will provide at least $791 million in outlay to maintain the operation of five Steward hospitals; the net cost being $676 million once payment advances are recouped. Aside from the cost of taking control of the St. Elizabeth's property through eminent domain, each of the components of this total cost are known and will not decrease. However, there are several ways in which the state cost could increase:

- **Eminent domain** – the state's current cost estimate of $22 million is far below the valuation of the former owner and seemingly the valuation of the City of Boston. If the ultimate cost is midway between the state and owner estimates, it would mean an additional cost of $89 million.

- **Additional supplemental support** – the cost of the initial arrangement with the new operators is known and laid out in a written agreement. However, there is no guarantee that a new operator will not determine that additional subsidies are necessary to maintain operation. Should that occur the state's primary options would be to provide additional support, facilitate a subsequent sale, or let the hospitals close. It is not hard to envision additional supplemental payments being arranged to maintain hospital operations.

Bottom Line

The Steward crisis has already negatively impacted health care access and broader health care finances in the Commonwealth and the state response is intended to mitigate those impacts and maintain care at five former Steward hospitals. This Bulletin does not assess the broader health care implications of the Steward crisis or predict the success of the state intervention. Instead, our goal has been to lay out what we know about how this ongoing crisis impacts public finances. The bottom line is that even under the most optimistic scenario, the Steward fallout will cost the state more than $300 million over the next three years. In the months ahead, it is vital that policymakers continue to provide transparent updates on how current cost estimates change and whether or not initial support packages will be sufficient to keep five hospitals open.