Bacon's Rebellion
Reinventing Virginia for the 21st Century

Health Care Dies in Darkness

Posted on August 3, 2018 by James A. Bacon | 11 Comments

The City of Richmond has an annual budget of about $700 million a year. The city gets loads of coverage by local media. Henrico County has an annual budget of about $1 billion a year. County government doesn't warrant the same number of column inches or minutes of air time, but local media do catch the highlights.

VCU Health System has broken ground on a $349 million outpatient facility, the largest investment in its history.

The publicly owned and operated VCU Health System has a budget of about $1.5 billion a year. The quality of medical care there has just as critical an impact on the lives of the Richmond-area residents as, say, schools, roads, and municipal services. Moreover, increases in hospital charges have rapidly outpaced the increase in local tax rates for years — perhaps decades. Yet no one raises a peep, and local media tell us nothing about the hospital's internal deliberations.

My purpose here is not to dis local media, which are under tremendous cost-cutting pressure and have shrinking resources to cover the news. It is simply to suggest than an institution so large and vitally important to a community — and the same could be said of Sentara in Norfolk, Riverside in Newport News, Carilion in Roanoke, Inova in Northern Virginia, and the University of Virginia Hospital in Charlottesville — needs public accountability. Oversight is all the more imperative when an institution enjoys nonprofit status that frees it from the burden of paying property taxes, sales taxes, corporate income taxes, and miscellaneous levies and excises.

It's fair to say that the general public knows almost nothing about how VCU is run, what it's long-range goals are, or how well it's doing its job. Its annual report (like all annual reports) is essentially a public relations document. The only glimmer of accountability comes from the Virginia Health Information website, which compiles hospital data and publishes some "efficiency" metrics, but provides no narrative analysis.

VCU Health generated an operating income of $136 million in fiscal 2016 — $120 million, if non-operating gains and losses are taken into account. It enjoys a protected market thanks to state and federal restrictions on competition. What is the public getting for the quasi monopoly status conferred upon VCU and the massive profits it generates? Not efficiency, that's for sure.

Indicator Description	Quartile Rank 1 through 4
Gross revenue per adj. admission ($) (lower is better)	48,352.31 (4) 17,508.56 — 88,881.29
Net revenue per adj. admission ($) (lower is better)	15,572.48 (4) 6,634.77 — 17,891.23

Source: Virginia Health Information

Virginia Health Information compares gross and net hospital revenues per admission, adjusting for the acuity of cases. (As a tertiary care hospital and trauma center, VCU gets a disproportionate share of the hard cases, but the VFI methodology accounts for that.) For both categories, VCU falls within the most expensive quartile of hospitals, as shown in the table above.

Indicator Description	Quartile Rank 1 through 4
Cost per adj. admission ($) (lower is better)	14,287.23 (4) 5,731.78 — 16,498.99
Labor cost per adj. admission ($) (lower is better)	6,032.45 (4) 1,799.78 — 7,491.79
Non-labor cost per adj. admission ($) (lower is better)	6,461.58 (4) 1,831.01 — 6,876.10
Capital cost per adj. admission ($) (lower is better)	1,049.76 (4) -426.68 — 6,228.47

Source: Virginia Health Information

VHI also looks at underlying costs. Again, VCU consistently comes out as one of the most expensive hospitals in Virginia, whether labor cost per admission, non-labor cost, or capital cost. Other tables shows that productivity/utilization ratios fall in the bottom two quartiles.

Despite these unfavorable comparisons — which VCU undoubtedly will say are unfair, perhaps with good reason — the health system retains $120 million a year in profits (what VHI terms “Revenue and gains in excess of expenses and losses”). An industry rule of thumb is that hospitals need to retain 3% of their earnings to reinvest in new plant, equipment and technology. VCU retains 8%, a difference of about $75 million a year.

In theory, VCU could rebate that $75 million a year to the community in the form of lower charges to patients. But hospital management, with the backing of the VCU board, has chosen to invest in institutional expansion.

That includes, most controversially, significant expenditures to create the Virginia Treatment Center for Children, even though philanthropist William H. Goodwin had pledged to give $350 million to create an independent children's treatment and research hospital. VCU declined to collaborate with Goodwin, preferring to charge ahead with plans to keep the children's hospital under its own corporate umbrella. Goodwin has not announced how he might otherwise dispose of his proposed gift, but there is no guarantee that the Richmond community will be the beneficiary.

Nonprofit hospitals, like colleges and universities, are not profit-maximizing institutions — they are prestige-maximizing institutions. Hospital administrators don't go into the hospital business to make massive fortunes (although they do very nicely). They go into the hospital business to enhance the status of the institutions with which they are affiliated. Nonprofit status is not some magic fairy dust that makes self-interest and self-dealing disappear. As with the quest for profit, there is no limit to how much money hospital leaders will spend to advance their institutional standing in a never-ending race with other institutions seeking to do the same.

These massive revenue- and profit-generating enterprises — VCU is hardly alone — operate with no effective restraint or public oversight in Virginia. For time immemorial, Virginia's news media has defined its mission as holding government entities accountable. It's high time they begin holding nonprofit universities and hospitals accountable as well. But they can't — they lack the resources. As nonprofit universities and hospitals metastasize, growing swaths of Virginia's economy function in darkness.

There are currently no comments highlighted.

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11 RESPONSES TO "HEALTH CARE DIES IN DARKNESS"

LarrytheG | August 3, 2018 at 12:44 pm | Log in to Reply

Re: " Nonprofit hospitals, like colleges and universities, are not profit-maximizing institutions — they are prestige-maximizing institutions. Hospital administrators don't go into the hospital business to make massive fortunes (although they do very nicely). They go into the hospital business to enhance the status of the institutions with which they are affiliated. Nonprofit status is not some magic fairy dust that makes self-interest and self-dealing disappear. As with the quest for profit, there is no limit to how much money hospital leaders will spend to advance their institutional standing in a never-ending race with other institutions seeking to do the same."

I think that sentiment is complete balderdash….

You wouldn't say that about profit-making entities… they have a goal of becoming bigger and stronger competitors… in their industry. Walmart and Amazon are not seeking "prestige" – and I'd argue similarly for Colleges and Hospitals. They too, want to bigger and stronger.. offer more/better services and become better known – not for Prestige – but because they want to be recognized for their quality and value.

Take the UVA Medical Center – people don't go there for it's prestige. They go there because it has a reputation as a top notch Medical facility – and they don't get there by being "minimal".

Non-profits and not-for-profits are no more nefarious that any other entity that is serious about their mission to provide high quality and value for a competitive price!

I'll pick VCU and UVA .. ANY DAY over the likes of Dominion for value and commitment to their customers!

> **virginiagal2** | August 5, 2018 at 1:39 pm | Log in to Reply
>
> What confuses me is that both VCU and UVA are major research hospitals. Their excess funds have to cover the cost of research, and both are doing a lot of it. You would expect expenses and profits to be higher to cover those costs. That's a good thing, not a bad thing.

Izzo | August 3, 2018 at 2:32 pm | Log in to Reply

A very good post. I think the non-profit status is not being evaluated properly (as it provides a huge competitive advantage) and is in fact contributing to consolidation and decreased competition and higher prices.

And to the point of lack of oversight, my mind keeps coming back to the UVA $2B+ Strategic Investment fund endowment and the growth of VCU's endowment, which is now about $1.8B. I feel certain that a large part of both of those came from medical center operations. The more I think about it, if just doesn't seem right to transfer money from a non-profit charged with providing charity care and controlling costs to university administrators and a board for whatever uses they identify. That stinks.

> **virginiagal2** | August 5, 2018 at 1:34 pm | Log in to Reply
>
> A very large portion of UVAs strategic investment is going to medical research initiatives. UVA is a research hospital. It's charged with doing research and improving medicine, not just providing care.

LarrytheG | August 3, 2018 at 4:56 pm | Log in to Reply

re: " The more I think about it, if just doesn't seem right to transfer money from a non-profit charged with providing charity care and controlling costs to university administrators and a board for whatever uses they identify. "

IN UVA Medical case -if that "excess" is actually directed to the Medical School itself to improve the Medical School – I'm totally in favor of it – and lacking info as to that possibility does not mean we whip up some "belief" about it and use that belief as justification for interfering with their operations.

We should REWARD such entities that take the same insurance reimbursements as others – and have successfully lowered their costs to provide equivalent care – and have money "left over" that will then go to pay for more needed equipment or additional staff , etc. The last thing in the world we want to do is punish them for improved cost-effective operations.

They deserve to keep what they have 'saved" and to plow it back into their organization to keep it top notch high quality operation.

These days – we seem hellbent to degrade, undermine, harm organizations based on little more than what folks "suspect"... but have no real knowledge of.

If we are bound and determined to punish the better run hospitals for keeping their costs down – why not direct some of it to the rural hospitals that are in danger of closing?

Big Picture – we need good hospitals that do keep costs down – and we should reward such behavior not penalize it.

> **Izzo** | August 3, 2018 at 7:34 pm | Log in to Reply
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> Larry, I'm pretty sure the hospitals in the U.S. by and large aren't keeping costs down, so I'm not sure at all where you are going with that part of your comment (perhaps Kaiser Permanente is an exception). And then the rest of your comment makes me wonder if you actually understood anything I wrote. The second part of my comment specifically had to do with "profits" from healthcare non-profits being used outside of the healthcare mission, which is the case with the strategic investment fund. The report to the GA on the UVA SIF specifically mentioned "Medical Center Profits/Reserves" as a source of funds, and the funds can be used at the board's discretion.
>
> > **virginiagal2** | August 5, 2018 at 1:35 pm | Log in to Reply
> >
> > 
> >
> > But the funds are being used for healthcare initiatives, including for major diabetes initiatives and major initiatives for cross disciplinary research to improve the practice of medicine. Did you read the list of strategic initiatives?

Acbar | August 3, 2018 at 10:04 pm | Log in to Reply

Once upon a time, along with Medicare and MedicAid, the federal government in its wisdom gave us a mechanism to oversee the health industry at the regional level, which was a mandated network of regional advocates for the public interest called, in each region of Virginia and elsewhere, the "Health Systems Agency of _____." This public advocate was supposed to intervene as a party in, and speak for the public interest in, all the State health agency proceedings for such things as certificates of need (required for hospital expansion). The HSA of Northern Virginia had a full time director and staff, a budget to hire expert witnesses, and enough clout to have a real influence on what INOVA and its competitors did.

But I haven't heard about any one of those HSAs for years. Do they still exist? Do they still have a role in health care costs? And, even in the best of times, this was top-down regulation of costs by a bureaucratic process modeled on the assumption that the Department of Health practiced a utility-style regulation of the costs of health care providers, not through the shaping of economic incentives for more efficient delivery of health care. This was an inadequate window into the black box you describe, Jim, but it was better than nothing.

V N | August 3, 2018 at 10:19 pm | Log in to Reply

Oh boy Sentara in Norfolk.

I ended up with an RN JD risk manager of a decade at Sentara. Gag orders (not for me), intimidation, harassment, gaslighting, "fluffing" records, you name it. I got them on record saying that a particular issue was not a problem. I knew it was, had the medical research to prove it, and wupp'ed them with it. Gone in 2 weeks. Their lawyer has some guts, I think the last thing I sent him was something like don't answer until you have a pair. They tried to get the Norfolk cops to arrest me for walking/being on the public sidewalk out by their area. The cops basically said leave me alone, don't bother them.

Bottom line Sentara pretty much uses the money and power to be a negative as much as positive. Suspect everyone, the gaslighting and petty retaliation is there. What a waste of time and childish. I am totally up for blowing the doors off the games done to hide things (like the rigged State Medical Board coverups, those guys can't figure out a drug felon should be in jail awaiting sentancing per fed orders rather than working in a hospital) and the like so maybe some morals other than money is God gets infused.

LarrytheG | August 4, 2018 at 5:02 am | Log in to Reply

Big Picture. Some hospitals make more money than their expenses while others do not and some of them go broke and close.

We don't really help the situation if we undermine the ones that are profitable while ignoring the ones that are not and close.

There is a misunderstanding of the terms non-profit and not-for-profit. It does NOT mean that they are violating the intent of the law by making more money than their expenses especially if the profitable ones are not paid any more reimbursements for services than other hospitals; i.e. insurance reimbursement is fairly standardized – they pay a set amount per procedure not per hospital. If two hospitals get the same reimbursement – and one actually can do the procedure for less than the reimbursement – it means they have successfully controlled their costs.

Successful hospitals reinvest their "profits" to improve themselves – to provide more and better services to the communities they serve..

Some hospitals that do quite well financially – serve demographically richer communities and may have less uncompensated charity care. Others serve demographically poorer communities and have higher uncompensated charity care costs.

But you don't fix this by taking actions to essentially harm the hospitals that are doing well financially. That whole mentality just tears down institutions that we need and benefit from – for little more reason than envy and dissatisfaction with the health care industry as a whole.

This is going on systematically through our society these days, not only hospitals, but public education, and other things vital to the well-being of all people who live in the country.

The central theme seems to be "if they're doing well.. they're bound to be doing something wrong so we need to find out then rip them".

I'm not on board with that kind of thinking … and believe that we want to both encourage good operations, cost-effective operations AND do something to address the closing of rural hospitals – rather than focus on penalizing only the ones that seem to be "rich" and forgetting/ignoring the problems with the ones that are not "profitable" .. closing.. and great segments of our society – without access to health care…

we just seem bound and determined to tear our institutions down these days… and won't be satisfied until they are broken …

I'm not excusing bad behavior – there are things that are wrong and need to be addressed – and fixed – but we don't do that by systematically tearing down things… we KEEP the institutions , we reward the things that are working – and we address and reform the things are not.. we don't just burn everything down because they're not perfect.

Anyone can find examples of bad stuff going on – but to focus on that alone and using it for justification to destroy things is in my mind – a sickness that is spreading through our society these days and we need to recognize that no institution is perfect – but having no institution at all – is worse and thats' sometimes seems to be what we seem hell-bent on these days…

Our military is the mother of all screw-ups at times… from toilet seats to friendly fire deaths.. to lost money – but we as a nation are dedicated to it as an essential and vital institution no matter it's flaws. Not so much some of our other institutions … health care and public education.

djrippert | August 5, 2018 at 8:43 am | Log in to Reply

There are lots of ways to make money as a hospital administrator at a so-called non-profit hospital. First is salary and bonus – as Jim Bacon says … comfortable but not gold plated. Second is a lucrative pension. Third is unusual perks like owning the home where the COO lives and letting him or her use it rent-free or with reduced rent because its close to the main facility. The theory is that the COO can walk to the hospital during times of inclement weather and make sure everything is running well. Fourth is membership on for-profit boards of directors. Big pharma, medical devices, for profit drug rehab, etc.

Eight years ago DC area hospital administrators were making nearly $2m per year in salary & bonus. Add on board memberships, etc and you end up with some very rich non-profit hospital executives.

https://www.washingtonian.com/2010/11/12/who-makes-how-much-health-care-professionals/