Increased number of Virginia hospitals facing financial distress

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The number of Virginia hospitals experiencing negative operating margins rose dramatically from 2016 to 2017, according to newly released figures from Virginia Health Information (VHI), the agency that gathers and reports health care data in the Commonwealth.

The VHI data shows:

- From 2016 to 2017, there was a 43 percent increase in the number of Virginia hospitals experiencing negative operating margins.
- Overall, 33 percent of Virginia's acute care, critical access, children's, psychiatric, and rehabilitation hospitals had negative operating margins in 2017.
- An astonishing 57 percent of rural hospitals operated in the red that year.
- In all, 55 of the 105 Virginia hospitals (52 percent) evaluated by VHI experienced declines in their operating margins from 2016 to 2017.

The Jan. 1, 2019 start of coverage expansion in Virginia is a welcome development that should strengthen the Commonwealth's health care delivery system. However, the latest VHI figures are a stark reminder that expansion alone isn't sufficient to address many of the broader systemic challenges facing Virginia hospitals. These challenges include Medicare funding cuts, continued reimbursement inadequacy, federal government charity care mandates, and the costs associated with expanding Medicaid.

Operating margins, for hospitals and other businesses, are a standard measure of profitability that reflect an annualized calculation of profits and losses. In 2016, 22 percent of all Virginia hospitals reviewed by VHI had negative operating margins, including 38 percent of rural hospitals. VHI's analysis is based on a review of data from 105 acute care, critical access, children's, psychiatric, and rehabilitation hospitals in the Commonwealth. Prior to 2016, VHI's data didn't fully incorporate rehabilitation and psychiatric hospitals into its annual reporting.

While the number of hospitals with negative operating margins can fluctuate from year to year, the ongoing trend of numerous hospitals operating in the red has serious implications for access to health care and Virginia's economy. For instance, financial constraints can inhibit a hospital's ability to make facility and equipment upgrades so that patients have access to state-of-the-art treatment.

It is commonly accepted in the industry that achieving a 4 percent operating margin is the minimum threshold necessary for hospitals to maintain fiscal stability and provide for capital expenditures. Based on VHI's 2017 data, 48 percent of Virginia hospitals were at or below that threshold.

The information reported by VHI provides an important barometer of Virginia hospitals' financial health. By law, VHI data also forms the basis for calculating the amount hospitals will contribute under the provider assessment to pay the state's share of Medicaid expansion costs. The total number of hospitals that experienced negative operating margins in 2017 includes 19 of the 69 Virginia hospitals (28 percent) that are subject to the new provider assessment. Hospitals make quarterly payments to the Commonwealth as part of the assessment arrangement. The first payment of $29.1 million was due Nov. 1, 2018, months before new health care coverage actually began. Those 69 hospitals are the only health care entities defraying state costs even though hospitals will only realize about one-third of the reimbursements associated with coverage expansion. It is anticipated that health care sector entities including insurers, pharmaceuticals, other providers, and medical equipment companies will realize significant benefits without making any financial contributions to support expansion.

Having a strong health care delivery system with a stable network of hospitals as a cornerstone is essential to Virginia's public health and economic prosperity. Hospitals are among the largest employers in the Commonwealth, directly supporting 125,000 jobs that account for more than $8.5 billion in payroll and benefits, generating nearly $40 billion in economic activity, spending more than $17 billion on local goods and services, and contributing $3.3 billion in direct community benefit and support in 2017.