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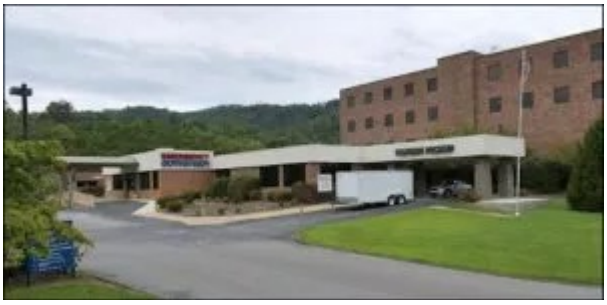
Virginia Hospital Profitability — How Big a Problem?

Posted on February 7, 2019 by James A. Bacon | 6 Comments



Community leaders are trying to reopen Lee Memorial Hospital, which closed in 2013.

The number of Virginia hospitals operating at a loss increased dramatically — 43% — between 2016 to 2017, according to the Virginia Hospital and Healthcare Association (VHHA). Overall, one third of Virginia's acute-care, critical-access, children's, psychiatric, and rehabilitation hospitals experienced negative operating margins in 2017.

The problem is most acute in Virginia's rural areas, with 57% of hospitals classified as "rural" operating in the red, said the association in a press release issued yesterday based on data published by Virginia Health Information (VHI). In all 55 of Virginia's 105 hospitals experienced declines in their operating margins between 2016 and 2017.

The VHHA described Medicaid expansion as "a welcome development that should strengthen the Commonwealth's health care delivery system." However, the latest VHI data are "a stark reminder that expansion alone isn't sufficient to address many of the broader systemic challenges facing Virginia hospitals," such as Medicare funding cuts, inadequate reimbursements, federal government charity care mandates, and the costs associated with expanding Medicaid.

Everyone should want Virginia to have financially healthy hospitals. It is worrisome if one third of the state's hospitals are bleeding red. However, the picture is more complicated than presented in the VHHA press release. Maybe the association is making a legitimate point, maybe it's not. It's hard to say based on one year's worth of context-free VHI data.

Here are some questions that arise from the VHHA report:

First question: While 55 hospitals experienced deteriorating profit margins, the other 50 hospitals experienced improved margins. How did the industry do as a whole in 2017? Are the rich getting richer while the poor are getting poorer? That's a very different issue than if everyone is getting poorer, and it points to very different solutions.

Second question: How many rural hospitals belong to health care systems in which their role is to feed patients to highly profitable flagship hospitals such as Virginia Commonwealth University, the University of Virginia, Norfolk General Hospital, Inova Fairfax Hospital, and Carilion Medical Center? To what extent are the integrated *health systems* becoming more or less profitable?

Third question: What's so sacred about "hospitals," which are, after, all clusters of medical services provided under one roof? Could many of the same services be provided more economically as independent, free-standing clinics and surgery centers? Does the pattern of profitability suggest the need for mo' money — or for a restructuring of rural medical services? To what degree does Virginia public policy — in particular, the Certificate of Public Need law, which restricts competition — lock into place antiquated and outmoded medical delivery systems in rural Virginia?

Fourth question: Could rural hospitals restructure themselves as adjuncts to telemedicine services originating in larger urban hospitals?

HB 1970 and its companion bill SB 1221 do not address that option directly, but they would promote telemedicine services to the home. From the summary:

> ***Telemedicine services; coverage and practice.*** *Requires insurers, corporations, or health maintenance organizations to cover remote patient monitoring services as part of their coverage of telemedicine services to the full extent that these services are available. The bill defines remote patient monitoring services as the delivery of home health services using telecommunications technology to enhance the delivery of home health care, including monitoring of clinical patient data such as weight, blood pressure, pulse, pulse oximetry, blood glucose, and other condition-specific data; medication adherence monitoring; and interactive video conferencing with or without digital image upload.*
>
> *The bill requires the Board of Medical Assistance Services to include in the state plan for medical assistance services a provision for the payment of medical assistance for health care services provided through telemedicine services, including remote monitoring services and the use of telemedicine technologies as it pertains to remote patient monitoring services, to the full extent that these services are available.*

Could this be part of the rural remedy?

There are currently no comments highlighted.

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6 RESPONSES TO "VIRGINIA HOSPITAL PROFITABILITY — HOW BIG A PROBLEM?"

Reed Fawell 3rd | February 7, 2019 at 11:30 am | Log in to Reply

This is an absolutely wonderful post, Jim. The problem it describes is a metaphor for a central problem within our society and what ails it. Rural health care is dying, while big city, big university health care is growing obscenely rich. How do we fix this obscene imbalance? Surely there is a way, perhaps by sharing and linking systems together for only one, of perhaps many ideas. This is a critical problem for our new rising Virginia, aided by incoming companies like Amazon to partner on finding the right and best practices solutions. Don't let this issue go away. We need to keep hammering on it, until right solutions are found.

LarrytheG | February 7, 2019 at 12:01 pm | Log in to Reply

A good post.

A couple of things.

In terms of money spent on health care – how much is spent on hospitals versus non-hospitals? My suspect is that a huge amount of health care spending is NOT on hospitals.

Also – some Hospitals in more economically well-off areas can and do get into more profitable services that folks in poorer places don't buy and people in richer places buy – AND out of their own pocket or with a high-dollar insurance plan.

Those service revenues boost those hospitals financial bottom line but again those services are not going to be in demand in poorer regions.

Like poor rural hospitals are much more like urban hospitals that serve all no matter if they can pay than they are like many 'profitable' suburban hospitals.

The urge is to look at these things at a simplistic level but too simplistic actually submerges real things that are involved and the conclusions that are proffered are not tied to realities.

djrippert | February 7, 2019 at 12:32 pm | Log in to Reply

Demographics is destiny …

"Of Virginia's 133 counties and cities, 78 gained population over the past year – and 71 have more residents now than in 2010. Fifteen localities have grown by more than 10 percent since 2010 – including Fredericksburg (17 percent), Prince William County (15 percent), James City County (12 percent) and Charlottesville (11 percent).

In contrast, 62 of Virginia's localities – mostly in the south and southwestern regions of the state – have seen a decrease in residents since 2010. The population has fallen about 9 percent in Bath and Tazewell counties and almost 11 percent in Buchanan County and the city of Emporia."

https://www.nbcwashington.com/news/local/Growth-in-Northern-Virginia-Decline-in-South-

Census-Data-477603033.html

Either find a way to stem the population losses or accept the fact that big chunks of the social infrastructure need to be consolidated / downsized.

Fred Costello | February 7, 2019 at 2:50 pm | Log in to Reply

When Obamacare was initiated, an Inova-Fairfax executive said that it would greatly increase the hospital's profitability. I was puzzled because the hospital is a non-profit.

> **djrippert** | February 7, 2019 at 4:58 pm | Log in to Reply
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> Latest Inova disclosure – $3.4B in revenue, $175m in operating income.
>
> If Inova were a public company it would be #680 on the Fortune 500 (which actually goes well beyond 500 these days ... obviously).
>
> As Inova (and other big hospital chains) buy up every tier of the health care system – from family docs to next generation genetic research operations – I wonder when more transparency and public scrutiny will be mandated.

LarrytheG | February 7, 2019 at 10:53 pm | Log in to Reply

Hospitals in areas of higher income demographics – can and do offer profitable services in demand ... hospitals in lower income demographics don't have that ability.

You're not going to find any magic way to make rural and inner city hospitals more "profitable". They just have too many patrons who cannot pay and too few who can and/or are able or willing to buy discretionary health care.

You may have to consolidate hospitals in rural areas but then you're going to have to invest in helicopters and other technology, including satellite ER/clinics.

What you cannot do – is essentially abandon the rural areas or provide wholly inferior health care because they are "hard to serve".

The rural areas actually provide us with opportunities to explore and find more cost-effective care. A good number of rural is already MedicAid and Medicare anyhow.
