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New Data Show Virginia's Hospitals Continue To Face Financial Challenges

November 24th 2015



(Courtesy Image)

Newly released figures from Virginia Health Information, the agency that gathers and reports health care data in the Commonwealth, underscore the fact that many local hospitals across the state continue to struggle financially. The numbers show that roughly 25% of Virginia's acute care hospitals, and nearly 42% of rural hospitals, operated in the red during calendar year 2014. That continues a pattern consistently reflected in VHI annual data. 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 alarming implications for access to health care, and Virginia's economy. Financial pressure can also impede a hospital's ability to make facility and equipment upgrades so patients have access to state-of-the-art treatment. It is commonly accepted in the industry that achieving a 4% operating margin is the minimum threshold necessary for hospitals to maintain fiscal stability and provide for capital expenditures. Based on VHI's 2014 data, 18 of 31 rural hospitals fell below that mark. Statewide, 40 of 89 hospitals were in that category, which includes some with negative margins and others with modestly positive margins.

The latest batch of data is evidence of hospitals around Virginia struggling with the pressures of longtime federal government care mandates that leave providers to deliver significant treatment volumes at free or discounted rates, as well as the pain inflicted by federal funding cuts that affect health care. From 2008-2014, the annual rate of Virginia acute care hospitals operating in the red has ranged from 38% to 25%. Among rural hospitals, the range is 63% to 42%. Even at the low end of the range, those numbers would be distressing as a one-time event. That they are not, however, is cause for public concern about the conditions that have put hospitals in this bind. Rating agencies such as Moody's Investors Service have tracked these troubling signs for years. Hospital leaders have responsibly managed their organizations by critically assessing staff levels, service lines, and other administrative functions with an eye on efficiency. Another response: struggling rural hospitals affiliating with larger health systems for survival. Such strategies can create short term financial flexibility but do not remedy the long term pressures created by government policy decisions. Consider Medicare and Medicaid, the joint federal-state health insurance programs that have been in existence 50 years. Reimbursements to hospitals for care provided to patients under those programs fall far short of actual treatment costs. And those pennies on the dollar payments aren't improving. As an example, the current inpatient reimbursement rate for Medicaid in Virginia is 66%, down from 79% in 2002. Additionally, a federal law Congress passed in 1986 requires all Virginia hospitals to provide emergency room treatment to patients regardless of their ability to pay. Virginia hospitals in 2013 provided \$627 million in charity care, a 57% increase from 2008.

The persistent challenge of negative operating margins poses risks to Virginians' access to health care and the entire state economy. Is it reasonable to expect that Virginians across the Commonwealth should have access to high quality health care provided by hospitals? The Virginia Hospital & Healthcare Association believes the answer is 'yes.' Yes for the public good, health care access, and the economy. Hospitals are among the largest employers in the state, directly supporting 115,000 jobs, generating \$36 billion in economic activity, and accounting for \$17 billion in spending on local goods and services. Hospitals are a top employer in 82% of rural Virginia counties, where each hospital job supports two local economy jobs.

Beyond government health care mandates, cuts due to the Affordable Care Act and sequestration that are not being offset by available resources stand as additional threats. Overall, funding cuts are forecast to deprive Virginia's local hospitals and health systems of roughly \$1 billion annually by federal fiscal year 2021. The potential impact of those cuts should be a frightening thought for Virginians who value health care access and the importance of hospitals to our economy and well-being.