Report: Virginia hospitals continue to face financial challenges

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Newly released figures from Virginia Health Information, the agency that gathers and reports health care data in the Commonwealth, yet again confirm the fact that many local hospitals across the state continue to struggle financially.

The numbers show that 27 percent of Virginia's acute care, critical access, and children's hospitals, and more than 43 percent of rural hospitals, operated in the red during 2015. Those figures indicate a slight increase from 2014 data showing roughly 25 percent of overall hospitals, and 42 percent of rural hospitals, with negative operating margins. Data from the past two years reflect the continuation of a pattern consistently evident 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 inhibit 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 percent operating margin is the minimum threshold necessary for hospitals to maintain fiscal stability and provide for capital expenditures. Based on VHI's 2015 data, 16 of 30 rural hospitals fell below that mark. Statewide, 34 of 88 hospitals were in that category.

The latest batch of annual 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 2008-2015, the overall annual rate of Virginia hospitals operating in the red has ranged from 25 percent to 37 percent. Among rural hospitals, the range is 42 percent to 63 percent.

Even at the low end of the range, those numbers would be distressing if they were a one-time event. They are not, which is cause for public concern about the conditions that have put hospitals in this bind. Rating agencies such as Moody's Investors Service are among the analysts that have tracked these troubling signs for years. Hospital operating margins are a key measure of profitability which should not be conflated with other hospital assets and investments such as property and complex equipment. The value of such commodities can fluctuate based on market trends, and net value. While VHI tracks hospital financial data, its calculations do not capture other care providers that make up the entire health system including physician practices, imaging centers, ambulatory surgery centers, free clinics, and other services.

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 more than 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 remain inadequate. For example, the current reimbursement rate for Medicaid in Virginia is 74 percent, down from 79 percent 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 2014 provided $584 million in charity care, a 46 percent increase from 2008 levels.

While some hospitals are profitable and others are not, what should concern all Virginians is the fact that negative operating margins are a persistent challenge. Because this is not a fleeting problem, it 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 percent of rural Virginia counties, where each hospital job supports two local economy jobs. Overall, hospitals are a top employer in 44 percent of Virginia's counties and cities.

Beyond government health care mandates, cuts related to the Affordable Care Act (ACA) and other actions which are not being offset through other available resources also exist as threats. As of now, overall funding cuts are forecast to deprive Virginia's local hospitals and health systems of roughly $1 billion annually by 2022. 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.

> Another complicating factor is what might come next in federal health care policy. More than six years after the passage and implementation of ACA, much uncertainty exists over how the Washington debate to repeal and replace ACA will unfold, and how any decisions made will impact health care access, delivery, and the industry's financial stability.

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