Three Hampton Roads hospitals have negative operating margins

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Trevor Metcalfe February 26, 2019

As hospitals across Virginia struggle with financial health, three Hampton Roads locations posted negative operating margins — meaning expenses overtook revenue — in 2017, according to new data from Virginia Health Information.

Bon Secours DePaul Medical Center in Norfolk, Bon Secours Maryview Medical Center in Portsmouth and Riverside Doctors' Hospital Williamsburg all posted negative margins which are calculated by dividing total income by operating revenue. DePaul had a margin of -8.3 percent, Maryview's was -4.5 percent and Doctors' Hospital logged -11 percent.

Throughout Virginia, hospitals faced financial hardship in 2017, according to the data. The number of state hospitals showing negative operating margins rose 43 percent from 2016 to 2017. Slightly more than half of all hospitals surveyed by the state experienced declines in their operating margins from 2016 to 2017.

The numbers don't tell the whole story of Bon Secours' finances, spokesperson Emma Swann said in an emailed statement. Since 2017, both hospitals "have seen improved financial results due to investments yielding growth of services, improved process efficiencies and cost management."

For Doctors' Hospital, the operating margin does not include several specialty care centers like radiation, oncology and surgery centers, Riverside Health System Chief Financial Officer Bill Austin said.

"When we combine all of those activities with the hospital, it becomes profitable," Austin said.

Still, financial hardship can hamstring even large health systems, according to Julian Walker, spokesperson for the Virginia Hospital & Healthcare Association advocacy group. Those conglomerates would need other hospitals to post positive margins to assist the lagging locations.

“A larger system might help to stabilize a number of hospitals,” Walker said.

Indeed, Bon Secours Mercy Health, which operates 43 hospitals in seven states, earned $8 billion in combined total revenue and posted a 3.6 percent operating margin in 2017, Swann said.

In general, Walker said hospital expenses pile up when the cost of care is not fully paid by either patients or insurance providers. For example, he said Medicaid and Medicare both reimburse hospitals below the full cost of care. Additionally, hospitals must absorb costs from “charity care” – free or reduced-priced services for uninsured or low-income patients.

At least for Riverside Health System, services are offered where there is a large enough need from the community, Austin said. That means patients might drive to another location if they need specialty care.

“You really have to pare back what it is you’re able to provide,” he said.

Several rural hospitals in Virginia have closed in the past few years, Walker said. When a hospital shutters its doors, the community loses more than just access to care.

“They also have a really powerful economic impact in communities,” he said.

Hospitals provide jobs in the communities they service, make investments in community health fairs, pay local vendors and more, Walker said. More than 125,000 direct jobs are supported by Virginia hospitals, according to the advocacy group.

Medicaid expansion might help to alleviate some financial hardship for hospitals, but it’s difficult to predict the size of the benefit, he said. In 2018, Virginia lawmakers voted to expand Medicaid coverage for around 400,000 people. Coverage began Jan. 1.

“Financially, it’s better for public health and it’s better for the provider,” Walker said.

Austin added that, in general, deregulation and increasing Medicaid and Medicare payment rates might also improve the financial health of hospitals.