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PROFITS OVER PATIENTS

How a Hospital Chain Used a Poor Neighborhood to Turn Huge Profits

Bon Secours Mercy Health, a major nonprofit health system, used the poverty of Richmond Community Hospital's patients to tap into a lucrative federal drug program.


By Katie Thomas and Jessica Silver-Greenberg

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RICHMOND, Va. — In late July, Norman Otey was rushed by ambulance to Richmond Community Hospital. The 63-year-old was doubled over in pain and babbling incoherently. Blood tests suggested septic shock, a grave emergency that required the resources and expertise of an intensive care unit.

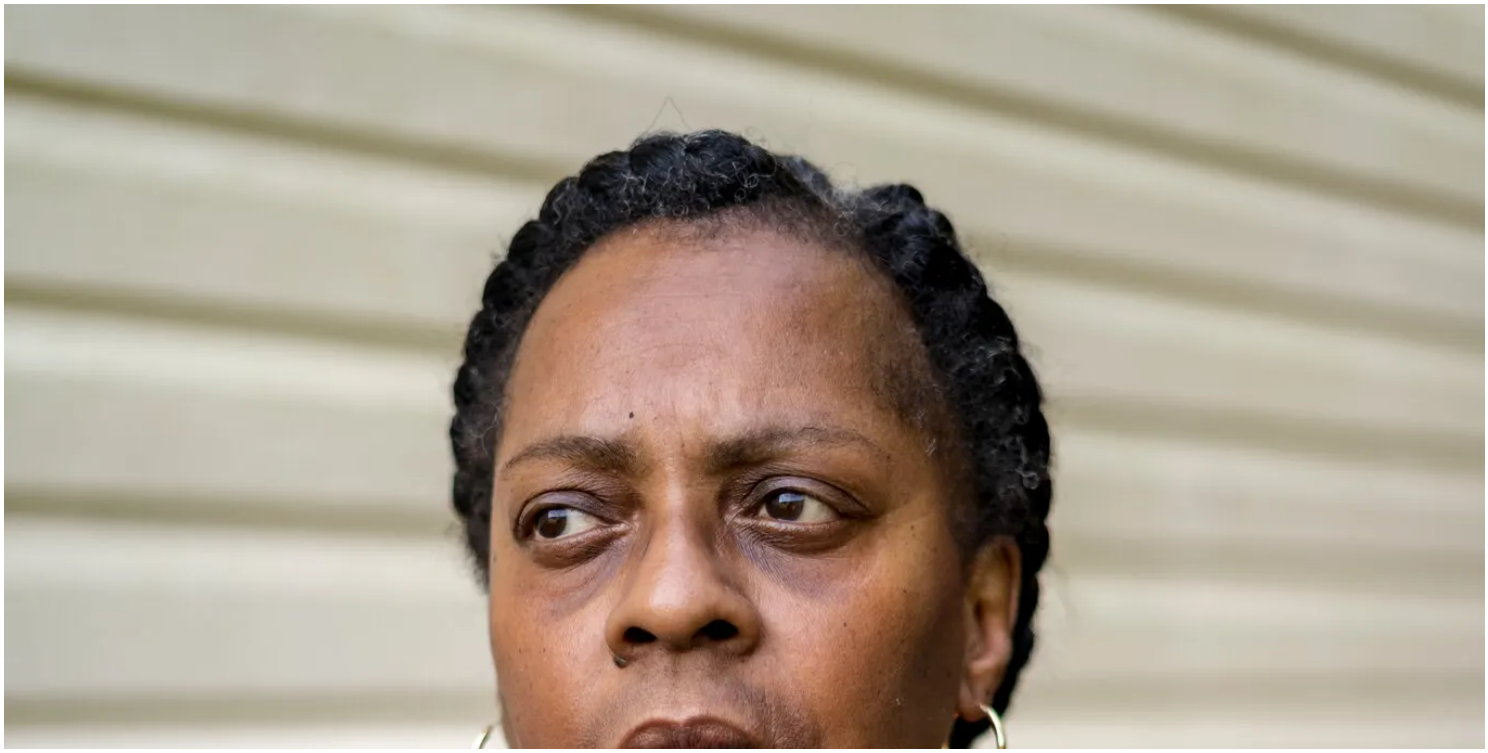
But Richmond Community, a struggling hospital in a predominantly Black neighborhood, had closed its I.C.U. in 2017.

It took several hours for Mr. Otey to be transported to another hospital, according to his sister, Linda Jones-Smith. He deteriorated on the way there, and later died of sepsis. Two people who cared for Mr. Otey said the delay had most likely contributed to his death.

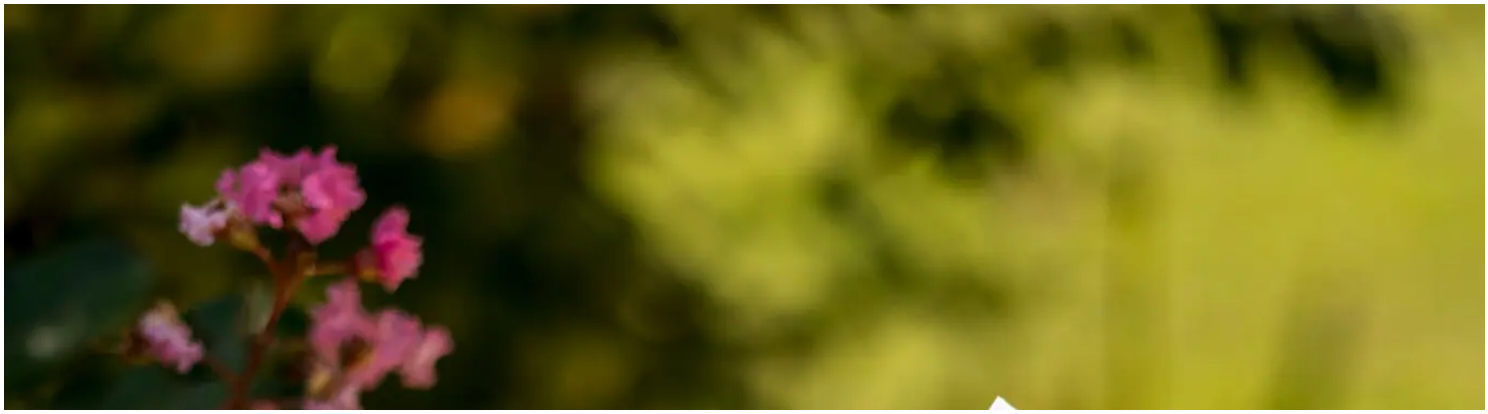
"He should have been able to go to the hospital and get the treatment he needed," Ms. Jones-Smith said. "He should have been saved."

Ringed by public housing projects, Richmond Community consists of little more than a strapped emergency room and a psychiatric ward. It does not have kidney or lung specialists, or a maternity ward. Its magnetic resonance imaging machine frequently breaks, and was out of service for seven weeks this summer, said two medical workers at the hospital, who requested anonymity because they still work there. Standard tools like an otoscope, a device used to inspect the ear canal, are often hard to come by.

Yet the hollowed-out hospital — owned by Bon Secours Mercy Health, one of the largest nonprofit health care chains in the country — has the highest profit margins of any hospital in Virginia, generating as much as $100 million a year, according to the hospital's financial data.



Linda Jones-Smith of Richmond, Va., sitting on the bench she used to share with her brother, Norman Otey, each morning. Carlos Bernate for The New York Times



A photo of Mr. Otey, who died at Richmond Community Hospital. “He should have been saved,” Ms. Jones-Smith said. Carlos Bernate for The New York Times

The secret to its success lies with a federal program that allows clinics in impoverished neighborhoods to buy prescription drugs at steep discounts, charge insurers full price and pocket the difference. The vast majority of Richmond Community's profits come from the program, said two former executives who were familiar with the hospital's finances and requested anonymity because they still work in the health care industry.

The drug program was created with the intention that hospitals would reinvest the windfalls into their facilities, improving care for poor patients. But Bon Secours, founded by Roman Catholic nuns more than a century ago, has been slashing services at Richmond Community while investing in the city's wealthier, white neighborhoods, according to more than 20 former executives, doctors and nurses.

"Bon Secours was basically laundering money through this poor hospital to its wealthy outposts," said Dr. Lucas English, who worked in Richmond Community's emergency department until 2018. "It was all about profits."

More than half of all hospitals in the United States are set up as nonprofits, a designation that allows them to make money but avoid paying taxes. Although Bon Secours has taken a financial hit this year like many other hospital systems, the chain made nearly $1 billion in profit last year at its 50 hospitals in the United States and Ireland and was sitting on more than $9 billion in cash reserves. It avoids at least $440 million in federal, state and local taxes every year that it would otherwise have to pay, according to an analysis by the Lown Institute, a nonpartisan think tank.

In exchange for the tax breaks, the Internal Revenue Service requires nonprofit hospitals to provide a benefit to their communities. But an investigation by The New York Times found that many of the country's largest nonprofit hospital systems have drifted far from their charitable roots. The hospitals operate like for-profit companies, fixating on revenue targets and expansions into affluent suburbs.

A federal program allows hospitals like Richmond Community to buy drugs at a steep discount and then charge insurers a much higher price for them. Carlos Bernate for The New York Times

Many of these hospitals have for years slashed staffing levels, leaving them unprepared for a flood of severely ill Covid-19 patients. Others, borrowing tricks from business consultants, have trained staff to squeeze payments from poor patients who should be eligible for free care.

In a statement, a spokeswoman for Bon Secours Mercy Health said the hospital system had spent nearly $10 million on improvements to Richmond Community Hospital since 2013, including opening a pharmacy and renovating the cafeteria, emergency department and other areas. The chain also invested nearly $9 million since 2018 in the neighborhood surrounding the hospital, she said.

Bon Secours's chief executive, John M. Starcher Jr., made about $6 million in 2020, according to the most recent tax filings.

"Our mission is clear — to extend the compassionate ministry of Jesus by improving the health and well-being of our communities and bring good help to those in need, especially people who are poor, dying and underserved," the spokeswoman, Maureen Richmond, said. Bon Secours did not comment on Mr. Otey's case.

In interviews, doctors, nurses and former executives said the hospital had been given short shrift, and pointed to a decade-old development deal with the city of Richmond as another example.

In 2012, the city agreed to lease land to Bon Secours at far below market value on the condition that the chain expand Richmond Community's facilities. Instead, Bon Secours focused on building a luxury apartment and office complex. The hospital system waited a decade to build the promised medical offices next to Richmond Community, breaking ground only this year.

'Glorified Emergency Room'

Closing an intensive care unit, as Richmond Community did in 2017, "really takes the meat and potatoes out of being a hospital," Dr. Richard Jackson said. Sarahbeth Maney/The New York Times

For Dr. Richard Jackson, 69, an internal medicine specialist whose family has been caring for patients in this city for more than a century, walking the mostly empty halls of Richmond Community Hospital is a painful reminder of what has been lost.

The hospital was founded in 1907 by Black doctors who were not allowed to work at the white hospitals across town. In the 1930s, Dr. Jackson's grandfather, Dr. Isaiah Jackson, mortgaged his house to help pay for an expansion of the hospital. His father, also a doctor, would take his children to the hospital's fund-raising telethons.

In 1980, Richmond Community moved to its current site in the East End neighborhood, where there was no other hospital. The modest building did not have an emergency room or a maternity ward. But in addition to the intensive care unit, it had specialists in cancer as well as heart and lung disease. Dr. Jackson recruited many of them from Howard University, where he had attended medical school.

But in the 1990s, the changing health care industry threatened the hospital's survival. Large insurance companies began requiring customers to use specific networks of hospitals and doctors, in a bid to pressure providers to lower their rates. Independent institutions like Community — as it is known in the neighborhood — could not compete with larger chains, and the hospital struggled to attract patients.

The doctors, who owned the hospital as part of a for-profit partnership, sold it to Bon Secours in 1995.

Bon Secours was one of the dominant players in Richmond, with major medical centers throughout the city. It initially invested in the hospital, opening the emergency department, according to a history of Richmond Community by Cassandra Newby-Alexander at Norfolk State University.

Dr. Jackson's father, Reginald, right, and his grandfather Isaiah, second from right, were also Richmond doctors. Sarahbeth Maney/The New York Times

But as the years passed, Bon Secours began stripping the hospital's services, including the I.C.U. The unit had only five beds, but doctors regarded it as the heart of the hospital, the place to provide critical care for the sickest patients and those recovering from major surgery.

Removing the I.C.U. "really takes the meat and potatoes out of being a hospital," Dr. Jackson said. "It's a glorified emergency room."

With the I.C.U. closed, the hospital's two lung specialists had nowhere to treat critically ill patients. They retired, and Bon Secours did not replace them. A team of cardiologists left a few years later. Other specialists, including gastrointestinal doctors and neurologists who were part of Bon Secours's broader network, rarely treated patients at Richmond Community.

Doctors and nurses said that when they had protested the closure of the I.C.U. and other cuts, Bon Secours argued that patients could still receive care at the chain's other hospitals.

But that promise was undermined by the arrival of the coronavirus, which disproportionately affected Black and low-income residents in the East End. In the census tract that includes Richmond Community Hospital, the Covid death rate has been 81 percent higher than the city's overall rate, according to data provided by the Virginia Department of Health.

In the summer of 2021, as the Delta variant surged through the city, a woman in the emergency room with Covid declined and needed an I.C.U. with a ventilator, according to three people involved in her case.

For hours, the staff couldn't get her to another hospital. Eventually, she was transferred to Memorial Regional Medical Center, also owned by Bon Secours, but died after arriving. Her death left some who had cared for her at Community wondering if she would have survived had she shown up at a different hospital.

Bon Secours declined to comment on whether the hospital's lack of an I.C.U. contributed to the Covid death toll.

The pandemic exacerbated a problem that doctors and nurses said they had long faced — getting patients access to other hospitals in the Bon Secours system.

The East End is home to Richmond's largest Black population and, despite recent interest from real estate investors, lacks some basic services. In 2019, it got its first supermarket.

Dr. Samuel Hunter left Richmond Community in May after working more than four decades there. Sarahbeth Maney/The New York Times

In some of the neighborhoods surrounding the hospital, more than half the households do not have a car, according to research done by Virginia Commonwealth University. The public bus route to St. Mary's, a large Bon Secours facility in the northwest part of the city, takes more than an hour. There is no public transportation from the East End to Memorial Regional, nine miles away.

"It became impossible for me to send people to the advanced heart valve clinic at St. Mary's," said Dr. Michael Kelly, a cardiologist who worked at Richmond Community until Bon Secours scaled back the specialty service in 2019. He said he had driven some patients to the clinic in his own car.

Richmond Community has the feel of an urgent-care clinic, with a small waiting room and a tan brick facade. The contrast with Bon Secours's nearby hospitals is striking.

At the chain's St. Francis Medical Center, an Italianate-style compound in a suburb 18 miles from Community, golf carts shuttle patients from the lobby entrance, past a marble fountain, to their cars.

In December, Bon Secours kicked off a $108 million construction project at St. Francis to expand its I.C.U. and maternity ward. Not long before that, Bon Secours broke ground on a free-standing emergency room that would be an extension of St. Francis in suburban Chesterfield County. The news release boasted that it would offer CT, M.R.I. and ultrasound imaging.

Dr. Samuel Hunter, 81, who worked for more than four decades as a pathologist at Richmond Community until he left in May, said the disparity reminded him of his childhood in segregated Florida, where Black children like him learned from textbooks that white students had already used.

"I know what it feels like to have secondhand things," he said.

A Lucrative Drug Program

Though better equipped, St. Mary's Hospital in the city generated $27 million less for Bon Secours Mercy Health in 2020 than Richmond Community did. Sarahbeth Maney/The New York Times

When Bon Secours bought Richmond Community, the hospital served predominantly poor patients who were either uninsured or covered through Medicaid, which reimburses hospitals at lower rates than private insurance does. But Bon Secours turned the hospital's poverty into an asset.

The organization seized on a federal program created in the 1990s to give a financial boost to nonprofit hospitals and clinics that serve low-income communities. The program, called 340B after the section of the federal law that authorized it, allows hospitals to buy drugs from manufacturers at a discount — roughly half the average sales price. The hospitals are then allowed to charge patients' insurers a much higher price for the same drugs.

The theory behind the law was that nonprofit hospitals would invest the savings in their communities. But the 340B program came with few rules. Hospitals did not have to disclose how much money they made from sales of the discounted drugs. And they were not required to use the revenues to help the underserved patients who qualified them for the program in the first place.

In 2019, more than 2,500 nonprofit and government-owned hospitals participated in the program, or more than half of all hospitals in the country, according to the independent Medicare Payment Advisory Commission.

Starting in the mid-2000s, big hospital chains figured out how to supercharge the program. The basic idea: Build clinics in wealthier neighborhoods, where patients with generous private insurance could receive expensive drugs, but on paper make the clinics extensions of poor hospitals to take advantage of 340B.

Since 2013, Bon Secours has opened nine such satellite clinics in wealthier parts of the Richmond area, according to federal records. Even though the outposts are miles from Richmond Community, they are legally structured as subsidiaries of the hospital, which entitles them to buy drugs at the discounted rate.

The Bon Secours Cancer Institute at St. Mary's, for example, administers cancer drugs to patients in an office suite on the tree-lined campus of St. Mary's Hospital.

Thanks to 340B, Richmond Community Hospital can buy a vial of Keytruda, a cancer drug, at the discounted price of $3,444, according to an estimate by Sara Tabatabai, a former researcher at Memorial Sloan Kettering Cancer Center.

But the hospital charges the private insurer Blue Cross Blue Shield more than seven times that price — $25,425, according to a price list that hospitals are required to publish. That is nearly $22,000 profit on a single vial. Adults need two vials per treatment course.

Richmond Community is the closest hospital for residents of Creighton Court, one of six nearby public housing complexes. Sarahbeth Maney/The New York Times

The way hospitals use the 340B program is "nakedly capitalizing on programs that are intended to help poor people," said Dr. Peter B. Bach, a biotechnology executive and researcher whose work has shown that hospitals participating in the 340B program have increasingly opened clinics in wealthier areas since the mid-2000s.

Bon Secours did not disclose how much money it earned through the program, but said the funds "help us address health disparities while providing community support and outreach." It said it had provided nearly $18 million in free care to poor patients at Richmond Community Hospital since 2018. In 2020, the hospital provided $3.8 million in free care to low-income patients, or about 2.6 percent of its total expenses, slightly above the national average.

The federal agency that oversees the 340B program, the Health Resources and Services Administration, said that hospitals and clinics were regularly audited, and that the Biden administration had proposed requiring them to report how they spent profits generated through the program. Such a change would require congressional approval.

In 2020, the most recent year for which data is available, Richmond Community Hospital — including its satellite offices — had a profit margin of nearly 44 percent, the highest in the state, according to an analysis by Virginia Health Information, a nonprofit group that collects financial data from hospitals.

That year, the hospital brought in more than $110 million in revenue, after expenses and losses were deducted, according to Virginia Health Information. According to two former Bon Secours executives familiar with the hospital's financial operations, the vast majority of Richmond Community's profit since 2013 has come from the 340B program.

Bon Secours's other hospitals have not done as well. St. Mary's, considered the most prestigious Bon Secours facility in Richmond, brought in $83 million in 2020.

'Unabashedly Profit-Oriented'

This training center, used by the Washington Commanders football team, was part of a development plan that also promised the medical office building next to Richmond Community. Sarahbeth Maney/The New York Times

On a sunny October day in Richmond in 2012, two cheerleaders for Washington's National Football League team smiled for cameras as they gripped a large sign between them.

"Bon Secours Training Center," read the sign, which combined the Bon Secours fleur-de-lis logo with a bust of a Native American, the football team's logo at the time.

The team, Bon Secours and the State of Virginia were unveiling a major economic deal that would bring $40 million to Richmond, add 200 jobs and keep the Washington team — now known as the Commanders — in the state for summer training.

The deal had three main parts. Bon Secours would get naming rights and help the team build a training camp and medical offices on a lot next to Richmond's science museum.

The city would lease Bon Secours a prime piece of real estate that the chain had long coveted for $5,000 a year. The parcel was on the city's west side, next to St. Mary's, where Bon Secours wanted to build medical offices and a nursing school.

Finally, the nonprofit's executives promised city leaders that they would build a 25,000-square-foot medical office building next to Richmond Community Hospital. Bon Secours also said it would hire 75 local workers and build a fitness center.

"It's going to be a quick timetable, but I think we can accomplish it," the mayor at the time, Dwight C. Jones, said at the news conference.

Today, physical therapy and doctors' offices overlook the football field at the training center.

On the west side of Richmond, Bon Secours dropped its plans to build a nursing school. Instead, it worked with a real estate developer to build luxury apartments on the site, and delayed its plans to build medical offices. Residents at The Crest at Westhampton Commons, part of the $73 million project, can swim in a saltwater pool and work out on communal Peloton

bicycles. On the ground floor, an upscale Mexican restaurant serves cucumber jalapeño margaritas and a Drybar offers salon blowouts.

The land next to Richmond Community Hospital, by contrast, remained inactive until February of this year, when Bon Secours broke ground on the complex.

Former executives at the chain said a series of management changes in Bon Secours's Richmond region, coupled with a change in mayoral administrations, had distracted attention from the project. And a merger with an Ohio hospital chain in 2018 accelerated the push for higher revenues, according to former administrators and doctors.

"There was a major shift from being mission-oriented to being unashamedly, unabashedly profit-oriented," said Dr. Jones, the former mayor who helped broker the original deal.

Bon Secours said that since 2018, it had spent more than $19 million supporting organizations and initiatives throughout metropolitan Richmond, including more than $8 million on local businesses and charities in the East End. The work near Richmond Community Hospital is projected to be finished by the end of this year. Hospital executives have said they plan to house mental health, hospice and other services there.

Bon Secours said it had made nearly $10 million in improvements to the hospital since 2013. Carlos Bernate for The New York Times

Disaster Medicine

For years, doctors and nurses at Richmond Community have often felt as if they were working on a battlefield, doing their best with severely limited supplies and facilities.

Kristen Schnurman, who began her career as a physician assistant at Bon Secours in 2014 and left in 2019, said she had once confided in a doctor that she was not learning proper medical care.

"He said to me — and this will always stick with me — 'You're not learning medicine, you're learning disaster medicine,'" she said.

In the summer of 2016, with temperatures soaring past 90 degrees, the hospital's air-conditioning went out for several weeks, making it hotter inside than out on the street.

When asked about the air-conditioning and lack of basic supplies at Richmond Community, Bon Secours declined to comment. Ms. Richmond, the Bon Secours spokeswoman, said it would replace the M.R.I. machine as part of a $5.3 million capital improvement plan.

Dr. Kelly, the cardiologist, stopped treating patients at the hospital in 2019. But there is one man's story that haunts him.

The man, who was in his 50s, arrived at the emergency room showing signs of a heart attack. To prevent permanent damage, the man needed to be swiftly catheterized, a procedure that would insert a balloon into his blocked artery and force it open.

Bon Secours did not have the tools for the catheterization, so Dr. Kelly arranged for the patient to be transferred quickly to Memorial Regional.

But Memorial could not guarantee a bed would be ready, Dr. Kelly said. So the patient waited for several hours in the Community emergency room. "All we could do was watch it happen," Dr. Kelly recalled.

The patient survived, he said, but the delay damaged his heart. For the rest of his life, the man will be at risk for extreme fatigue and dangerously low blood pressure, Dr. Kelly said.

Every time that Bon Secours took away a service from Community, executives gave doctors the same justification: Patients were just an ambulance ride away from hospitals in the broader system.

But Dr. Kelly and other doctors said many patients had wound up like the man with the heart attack. "We very, very often were stuck for many hours with patients who absolutely needed advanced care," Dr. Kelly said.

Other patients faced a different problem: Specialists who saw patients at other Bon Secours locations would not travel to the hospital.

This spring, Doris Scarborough, 79, went to Richmond Community to have her toe partly amputated. Poor circulation had turned the toe black and gangrenous. She said her podiatrist had told her that she would lose some of her toe, but was likely to keep her leg if she had a standard procedure known as revascularization.

Richmond Community did not offer this procedure. Ms. Scarborough had to have it done at the specialist's office, and it took more than two weeks to get an appointment. Weeks after the procedure, Ms. Scarborough lost her entire toe.

Dr. Foluso Fakorede, a cardiologist and an expert on racial disparities in amputation, said many people in poor, nonwhite communities faced similar delays in getting the procedure. "I am not surprised by what's transpired with this patient at all," he said.

Because Ms. Scarborough does not drive, her nephew must take time off work every time she visits the vascular surgeon, whose office is 10 miles from her home. Richmond Community would have been a five-minute walk. Bon Secours did not comment on her case.

"They have good doctors over there," Ms. Scarborough said of the neighborhood hospital. "But there does need to be more facilities and services over there for our community, for us."

Susan C. Beachy contributed research.

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