

McTevia Talks to The Detroit News About What's Ailing the Healthcare Industry in Michigan

Analysts: Health industry is overbuilt

Medical groups drive up costs competing for the same patients

Christina Rogers / The Detroit News

For nearly a decade, the state's health industry has stood as a salve to Michigan's economic ailments.

Health systems have splurged on expanding patient services, adding pricey technologies and hiring hundreds to support billions of dollars in expansions and newly built facilities. The job creation has helped stoke consumer spending locally and provided workers with taxable income for state and local governments.

But some analysts argue that the industry's growth has come at a price, saddling state and federal governments, private employers and ultimately consumers with ever-rising health care costs.

The industry, they argue, is overbuilt in Metro Detroit, with vacant offices aplenty, and hospitals becoming more interested in building satellite offices to gain market share than meeting demands of a growing population.

Oakland County, for example, has become battleground for health systems trying to expand, even though population growth has stagnated in the past decade. Between 2000 and July 2009, the county's population increased by less than 1 percent to 1.2 million.

"One of the reasons for the apparent expansion in health care is the overbuilding of medical institutions in attempt to grab patients," said Jim McTevia, a Bingham Farms-based management consultant who advises companies in transition.

"The conventional thought is if they don't want to come to Beaumont [Hospitals] in Royal Oak, we'll build one in Rochester."

But eventually the costs of building medical centers or adding technology trickle down to consumers -- either through higher health insurance premiums or more tax dollars being funneled into public health programs, such as Medicaid and Medicare.

"We look for the enemy and it in the end, it's us," McTevia said. "We demand things we can't pay for."

And while job growth is lauded by economic development leaders, the health industry is dominated by nonprofits which, in exchange for their designation as charitable institutions, do not pay local or state taxes on expansions and developed property. Health services don't generate sales tax revenue for the state, either.

And a large percentage of the health industry's revenue -- by some estimates, about half -- comes from government spending, mostly through Medicare and Medicaid payments.

"Since so much of health care is paid for by the government, it's wrecking public budgets at the federal, state and local level," said Charles Ballard, an economist at Michigan State University.

Health care leaders are aware of the dangers of building too much, too fast and at an expense daunting for a recession-rocked population. But they're also quick to point out that the industry contributes to the state's economy in other ways, such as attracting new money via federal research grants and venture capital investment into spin-off science companies.

Although nonprofits don't contribute to local and state tax coffers directly, many private doctors' offices, specialty clinics and medical laboratories do, said Dan Hunter, Oakland County's planning and economic development manager.

"It's not going to replace the tax revenue from GM and Chrysler, obviously," Hunter said.

However, the county already has seen benefits to the industry's growth, including efforts now under way by Beaumont Hospitals, the county's second-largest private employer, and Oakland University, to develop a medical school that could spark the creation of thousands of new jobs.

"It's not a goose egg," he added. "Even though Beaumont is largely a nonprofit, there is still (a) tremendous amount of research and a great number of clinical studies, which can lead to additional jobs and business investment."