

## SHORT TAKES

### DOCTORS ON THE SUPPLY SIDE

#### Virginia Adds Fourth Med School

A new medical school is under construction in Roanoke. The school is expected to add jobs, spill economic benefits over into the city's growing health sciences cluster, and alleviate doctor shortages in the rural southwest corner of the state. Nationwide, about 10 new med schools are in the planning or construction stage, along with expansions.

The effort is designed to ease a looming national doctor shortfall predicted by the Association of American Medical Colleges (AAMC). That's a change from the late 1990s when the AAMC's analysts predicted a national surplus of 145,000 doctors. Newer information indicates that retiring doctors and a growing population mean there will be too-few doctors even if medical schools increase enrollment by the stated goal of 30 percent over 2002 levels by 2015.

While there's no guarantee that new doctors will fan out over rural Virginia, "where you educate and train has a major impact on where you practice," says Edward Salsberg, director of the AAMC's Center for Workforce Studies. Of Virginia's 18,510 active physicians, 23 percent completed medical studies in the state, according to the AAMC's 2007 State Physician Workforce Data Book. Virginia ranks 30th among the 50 states in the percentage of doctors who practice in the same state where they studied.

The new medical school will help, says Dr. Cynda Johnson, dean of the new Virginia Tech Carilion School of Medicine. Affiliated with the for-profit health care firm Carilion, the school will be private. Carilion has trained resident physicians for 25 years. Over the years, about 170 graduates of its Family Medicine program have stayed in Southwest Virginia, she says. "They often choose to stay if they have a good experience."

Virginia Polytechnic Institute and State University is also a partner in the venture. Virginia Tech will own the building, for which the state has agreed to pay \$59 million. The first class of 42 students will arrive in 2010.

Even with the AAMC goal of increasing med school enrollment, there's likely to be a shortage. "Demand will far outstrip supply even with our recommended increase," Salsberg says. "We have to look at a redesign of services with nonphysician clinicians, redesigning and improving delivery. Increasing supply is not the solution; it's only part of the solution."

Despite the push for more doctors, simply increasing supply may not improve care, according to authors of the *Dartmouth Atlas of Health Care 2008*. Supplies of medical services (specialists, equipment, or the number of hospital beds, for instance) influence how often they are used, according to the Dartmouth report, but "higher spending and

greater use of supply-sensitive care is not associated with better care."

Researchers counted doctors who had cared for Medicare recipients with chronic diseases over their final two years of life. For example, patients at the University of California at Los Angeles medical center had more than twice the physician visits that patients at the Mayo Clinic did, but earned no better marks on established quality measures. The report concludes that the variation is grounded in the "assumption among both physicians and patients that more medical care means better care; the marked variations in supply that emerge in an unplanned marketplace; and a fee-for-service payment system that rewards providers for staying busy."

However, access to services is associated with better outcomes, according to Salsberg, and increased supply will provide greater access.

Virginia now has four medical schools. The University of Virginia School of Medicine in Charlottesville and Virginia Commonwealth University's Medical College of Virginia in Richmond are public. Eastern Virginia Medical School in Norfolk is a public-private venture, while the Virginia College of Osteopathic Medicine, located in Blacksburg, is private.

— BETTY JOYCE NASH

### MONSOON SEASON

#### State and Local Governments Curtail Spending

Myrtle Beach, S.C., has delayed a boardwalk project and a plan to add a performing arts center to its convention hall. "We do not see it meeting the same time lines envisioned 6 to 12 months ago," says Myrtle Beach City Manager Tom Leath, referring to the project. Blame uncertainty in the bond markets.

Forty-three state governments, including all Fifth District states except West Virginia, are coping with economic turmoil that has reduced personal income and consumption tax revenues. Those declines are hurting local governments nationwide because of declining property values and taxes, with the fallout extending to school budgets. For instance, in Chesterfield County, Va., school officials need to cut more than \$38 million from the FY 2009-2010 budget of about \$603 million.

And it's only the beginning, says Scott Pattison, executive director of the National Association of State Budget Officers (NASBO).

At press time, Maryland, North Carolina, and Virginia were projecting fiscal 2010 budget gaps of \$1.3 billion, \$2.7 billion, and \$1.8 billion, respectively. That budget year begins in July 2009.

"I think you'll see more significant cuts in the next year or

two,” Pattison says. By law, most states can’t run deficits, so states raise taxes, cut expenses, or use reserve rainy day funds to balance budgets.

Virginia Gov. Tim Kaine proposed a 30-cent cigarette tax hike, likely to cause a stir because the home turf of Philip Morris’ parent company, Altria, is Richmond. He’s also proposed education and Medicaid cuts. Kaine’s proposal would cut the Virginia Department of Transportation’s work force by about 1,000.

All that and no raises, for those who keep their jobs. The governor’s proposal also includes cuts of 15 percent in next year’s projected budget totals, except for community colleges (10 percent) and public safety agencies (7 percent). And for the second year in a row, the state may dip into its rainy day fund to the tune of \$490 million, the biggest withdrawal in history, if approved.

But West Virginia is all “green grass and high tides” right now, according to budget director Mike McKown. Coal and natural gas severance tax revenue has driven collections through November of 2008 to \$72 million ahead of estimates. He doesn’t expect the surplus to last, however, and plans a conservative estimate for FY 2010. For now, though, there are no hiring freezes, job or budget cuts.

North Carolina faces a nearly 6 percent shortfall (\$1.2 billion) in the current fiscal year, with most agencies being forced to cut spending by 5 percent. Gov. Mike Easley also wants agencies to submit plans for 3 percent, 5 percent, and 7 percent cuts for the coming years because of revenue uncertainty. South Carolina has cut its budget by more than \$1 billion since lawmakers approved the budget in June. Revenue projections fell by more than 11 percent.

Pattison expects personal income tax collections to “trough” in 2009. “It’s hard to predict refunds,” he says. States, at least, have no credit problems for now, but are paying higher interest rates on bond issues. And, even though retail investment remains strong in the bond market, institutional investment has not. “People are concerned that institutions won’t get in on purchasing bonds soon enough,” he notes. And that will affect future bond issues.

— MATTHEW CONNER AND BETTY JOYCE NASH

#### OPEN FOR BUSINESS

## Taxpayers Subsidize Firm’s Expansion in Virginia

Continental AG will close its manufacturing facility in South Carolina, and take its 318 jobs to its gasoline injector plant in Newport News, Va.

The announcement comes at an uncertain time for the future of the Big Three U.S. automakers. Yet even more uncertain is the fate of many suppliers to the car makers, particularly in the wake of a bruising year for car sales by American manufacturers. A Continental spokeswoman in Michigan, Michele Tinson, notes the move was mainly a consideration of the new realities in the auto industry. The

expansion in Newport News will put the firm under one roof, eliminate redundancies, and help the firm leverage expertise to cut manufacturing costs, according to a Continental press release.

The German-based company’s decision is part of a larger consolidation and cost-cutting trend occurring in the auto industry worldwide. “There’s going to be a big restructuring because of the trouble that the auto firms are undergoing,” says Doug Woodward, professor of economics at the Moore School of Business at the University of South Carolina. “And it’s not just the domestics. Foreign plants are revamping. The BMW plant located in Spartanburg is expanding still, but they are laying off workers. Michelin is still here, but these are tough times for them.” South Carolina’s unemployment rate is the third-highest in the nation, 8.4 percent in November 2008.

When Virginia Gov. Tim Kaine announced the move, he noted the state will give the firm \$3 million in relocation assistance. Two \$1.5 million “performance grants” will go Continental’s way after the firm closes up shop in South Carolina. The city of Newport News offered \$3.5 million in tax rebates. As is often the case in corporate relocations, economic development agencies of both states vied for the jobs. The competition between Virginia and South Carolina “was very close,” according to Florence Kingston, director of development for Newport News.

But it’s possible that the subsidies were unnecessary, according to a study that surveyed foreign-owned firms published in a 2004 issue of the *Journal of World Business*. The journal queried 26 foreign-owned firms that set up shop in North Carolina. The answers the executives gave to questions about location decisions suggest there are far more important considerations than taxpayer-funded handouts.

Most foreign-owned companies in North Carolina see government incentives as a minor factor in their location decisions, according to Dennis A. Rondinelli, Glaxo distinguished professor of management at the University of North Carolina-Chapel Hill’s Kenan-Flagler Business School and co-author of the study. In news accounts, he has said that executives have consistently emphasized that the primary criteria are locational assets: good transportation access, skilled labor force, quality of life, good education and training facilities, and ability to train work force for their industry.

Meanwhile, Newport News experienced what might be called an investment boom this year. Canon Inc. announced in May its intent to build a new \$625 million facility and initiate a \$20 million expansion of its Gloucester recycling plant. At least 1,000 new jobs are expected over the next five years. In October, Northrop Grumman teamed up with French firm AREVA to announce a joint venture that will build reactor parts at an area factory. Each venture was promised over \$20 million in a variety of grants and tax abatements by state and local governments.

— BETTY JOYCE NASH AND STEPHEN SLIVINSKI