NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

NEWS RELEASE

For Release after midnight, Sunday, July 27, 1986

CENTER RELEASES REPORT ON FOR-PROFIT HOSPITALS IN NORTH CAROLINA

For generations, most hospitals in North Carolina were publicly-owned or not-for-profit hospitals designed to provide health care at modest rates for the citizenry -- and not designed to bring stockholders a return on investment. But since 1980, the ownership and management of North Carolina's hospitals has changed dramatically, and now 42 of the state's 164 non-federal hospitals -- one in every four -- are either owned or managed by for-profit, commercial enterprises, the N.C. Center for Public Policy Research has found.

The Center examines this trend in the first of three reports that seek to assess the impact of the for-profit hospital movement in North Carolina. This first report, called "The Investor-Owned Hospital Movement in North Carolina," was edited by Center Research Coordinator Lacy Maddox. Two years in the making, the report incorporates material from interviews with officials at 39 hospitals throughout the state, as well as community leaders in areas where for-profit hospitals have begun to function. "The for-profit trend is one of the most significant health care issues that North Carolina citizens will face," says Maddox. "Sooner or later, each of us may require the services of a hospital, and how that hospital is operated and managed may be vital --literally."

Hospital ownership can be classified into three broadly-defined categories: (1) public; (2) not-for-profit (both secular and religious -- also called voluntary); and (3) investor-owned (also called private for-profit or proprietary). The majority of North Carolina's hospitals are owned by local governments (counties, cities, hospital districts, or special hospital authorities) or by not-for-profit corporations.

The report contains individual profiles of each of the 42 hospitals owned or managed by the 13 investor-owned hospital corporations operating in the state, and it identifies some of the possible factors leading to the acceleration of investor-owned involvement in North Carolina.

The trend towards for-profit ownership or management in North Carolina tracks what has happened on a national level, says Center Executive Director Ran Coble. "Since 1980, the number of investor-owned hospitals in the United States has increased dramatically, and North Carolina's increase has been just as dramatic. However, in the last year or so, acquisitions by large investor-owned hospital corporations have slowed for a number of reasons, including less favorable conditions in the stock market. The latest development is a movement into North Carolina by smaller hospital companies like Westworld Community Healthcare, which leases Bertie Memorial Hospital."

P.O. BOX 430 RALEIGH, N.C. 27602 (919) 832-2839

Advantages and Disadvantages of For-Profit Hospitals

The report identifies the major advantages and disadvantages of for-profit hospitals. Among the possible advantages are the following:

+ Access to private capital that can be used to repair a hospital building or to replace an old facility with a new one.
+ Access to a national pool of qualified personnel, particularly hospital administrators.
+ Management expertise, particularly in running a hospital providing high-quality care at a reasonable cost.
+ Volume purchasing of basic medical supplies like intravenous solutions.
+ Promoting competition in the hospital sector of the health care market.
+ Tax advantages, in that a for-profit hospital becomes a taxpayer, contributing revenues to local, state, and federal tax coffers.
+ And, relieving local governments of the burden of running a hospital.

The Center's report also points to these potential disadvantages:

- Investor-owned hospitals may have higher charges. In January 1984, a study by Blue Cross and Blue Shield of North Carolina found that average charges to Blue Cross subscribers in 1981-82 for three procedures (normal delivery of babies, hysterectomy, and gall bladder removal) were higher in six investor-owned hospitals than for other hospitals of similar size in North Carolina.
- Investor-owned hospitals may not provide as much indigent care as public or other non-profit hospitals.
- Hospitals affiliated with investor-owned corporations may narrow the range of their services and offer the most profitable services, thereby leaving fewer revenue-producing patients or services for not-for-profit hospitals in the same community.
- And, there is a philosophical question of whether profit considerations belong in the realm of health care.

Only one of the 13 for-profit hospital companies operating in North Carolina -- Hospital Corporation of America (HCA) -- both owns and manages hospitals in the state. HCA owns six hospitals, manages eight under contract, and leases one. Nine systems operate in the state only as hospital owners and operators. Three investor-owned systems are engaged exclusively as hospital managers.

Common Assumptions Found To Be Wrong Thus Far

As part of its research, the Center disproved two hypotheses: The first hypothesis was that public hospitals would be more likely to join investor-owned hospital systems than would not-for-profit or independent proprietary hospitals. But the Center found that thus far, this has not been true in North Carolina. Of the 29 hospitals which are completely owned by investor-owned corporations, only four were formerly public hospitals -- Central Carolina Hospital in Sanford, Heritage Hospital in Tarboro, Highsmith-Rainey Memorial in Fayetteville, and most recently Franklin Memorial in Louisburg. However, future sales to investor-owned systems would have to come from not-for-profit and public hospitals because there is only one remaining independent, for-profit hospital left in North Carolina (McPherson Hospital in Durham).

The second hypothesis was that a decision by public or not-for-profit hospitals to join an investor-owned system would be likely to follow the defeat of a local hospital bond referendum. However, again the Center's research found that this was not true. Based on the available evidence from the N.C. Local Government Commission, it appears that no significant relationship exists between these two events. First of all, hospital bond referenda usually pass. Since November 1970, 42 counties presented hospital bond referenda to the voters and only eight failed. And second, in only three (Lee, Iredell, and Franklin counties) of eight counties has the county subsequently affiliated with an investor-owned hospital corporation.

New Health Care Facilities Compete With Hospitals

The report examines several new and fast-growing components of the health care industry which affect the viability of the state's community hospitals. These include health maintenance organizations (HMOs), ambulatory surgery clinics, and urgent care centers, the so-called "Doc-in-a-box" health clinics that have popped up in many communities. "These new service providers can weaken a hospital's economic stability and perhaps make it more likely to be a candidate for sale to an investor-owned company," says Coble.

Many of these new health care services are themselves investor-owned. For example, American Medical International (AMI) owns a nationwide chain of ambulatory surgery centers, and Humana owns a chain of urgent care centers (MedFirst).

Some health care experts believe that the very existence of many hospitals will be threatened as these new competitors peel away one hospital profit center after another and turn the hospital into a money loser. "If you pull out all the parts of the hospital that are profitable, the hospital system as we know it will fly apart," said John Young, a staff researcher with the N.C. General Assembly. Three hospitals in North Carolina (Warren General in Warrenton, Gordon Crowell Memorial in Lincolnton, and Huntersville Hospital in Huntersville) have already closed in the last two years.

In this initial report, the Center looked closely at those North Carolina hospitals which have opted for affiliation with an investor-owned corporation. The report also delved into major problems facing hospitals in the next decade.

In its second report, the Center will present an analysis of the differences between investor-owned hospitals and other hospitals in the state. The report will examine six matched pairs of investor-owned and not-for-profit hospitals, comparing their charges and range of services. The report will also examine the amounts that for-profit hospitals and not-for-profit hospitals spend on indigent care and the taxes contributed to county budgets by local for-profit hospitals.

The third, and final, report will be intended for use primarily as a guide to assist the public, county commissioners, and local hospital officials in making decisions about whether to affiliate with a multi-hospital system, either for-profit or not-for-profit.

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit corporation created to examine significant public policy issues in North Carolina. The Center is supported in part by grants from the Z. Smith Reynolds and Mary Reynolds Babcock Foundations, both in Winston-Salem. This research project was also supported by special grants from the Kate B. Reynolds Health Care Trust of Winston-Salem and the Henry J. Kaiser Family Foundation of Menlo Park, California. Past studies have examined all the boards and commissions in the executive branch of state government, teacher certification, and regulation of credit insurance. Recently, the Center published a list of the 20 "most influential" lobbyists in the N.C. General Assembly, as ranked by the legislators, lobbyists, and capital news media.

Copies of the 251-page report on The Investor-Owned Hospital Movement in North Carolina are available for $28.00, plus $2.00 postage and handling, from the N.C. Center for Public Policy Research, P. O. Box 430, Raleigh, N.C. 27602.

For more information, call Lacy Maddox or Ran Coble at (919) 832-2839.