NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

NEWS RELEASE

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CENTER COMPARES PERFORMANCE OF FOR-PROFIT AND NOT-FOR-PROFIT HOSPITALS IN NORTH CAROLINA

For-profit hospitals charge more and provide less indigent care than not-for-profit hospitals in North Carolina, but they pay sizeable amounts in taxes, says a new report by the N.C. Center for Public Policy Research.

In a special research report produced for a joint presentation with the University of North Carolina Center for Public Television, the Center for Public Policy Research says that hospitals owned, managed under contract, or leased by national, investor-owned (for-profit) hospital chains perform differently than comparable not-for-profit hospitals.

The Center's report served as the research base for the production with UNC Television. Taped on Tuesday, May 24 at 7 p.m. at the Browne-McPherson Recital Hall at Peace College, the production will air on the North Carolina Public Television network at 8 p.m., Wednesday, May 25. James Bernstein, chief of the state's Office of Health Resources Development, will lead a discussion by a panel of four experts in hospitals and health care. The scheduled panelists include Stephen Morrisette, Senior Vice-President of the N.C. Hospital Association; Earl Tyndall, Administrator of Medical Park Hospital in Winston-Salem; Glenn Wilson of the UNC-CH School of Social and Administrative Medicine; and Lori Ann Harris of the N.C. Center for Public Policy Research.

"Since 1980, more than one-fourth of North Carolina's 164 non-federal hospitals have affiliated in some way with a for-profit corporation," says Lori Ann Harris, a Center researcher and co-author of the report. "Because this is such a significant change in ownership and management of our state's hospitals, we at the Center decided to see if the for-profits perform differently."

The Center's study was designed to answer the following four questions:

1) Do for-profit hospitals have higher costs and charges than not-for-profit hospitals?
2) Do for-profit hospitals provide more or less care to indigent patients?
3) If for-profit hospitals provide less indigent care, do they pay taxes (as for-profit corporations) which would offset any deficiencies in indigent care?
4) Do for-profit hospitals offer a broader or narrower range of services than not-for-profit hospitals?

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A. Comparison of Costs and Charges

In comparing costs and charges, the Center matched seven investor-owned hospitals with not-for-profit hospitals of similar size (number of beds), number of employees and admissions, and occupancy rates. Using Medicare Cost Reports -- financial reports filed annually with the federal Health Care Financing Administration -- the Center then compared costs (to the hospital) and charges (to the patient) between for-profits and not-for-profits. For-profits had higher charges generally than comparable not-for-profits, particularly in what are called ancillary services. Ancillary services are those which are not included in the room charge, such as x-rays, drugs, and anesthesiology and laboratory services. The Center found that gross inpatient revenue per day from ancillary services was almost 30 percent higher at investor-owned hospitals.

Interestingly, the Center found that charges for room rates were almost identical in the for-profit and not-for-profit hospitals examined in the study. The average room rate in the for-profit hospitals in 1986 was $147, while the average in not-for-profits was $148. (See Table 1, attached). "This finding is consistent with that of other studies nationally," says Marianne Kersey, one of the co-authors of the study. "In our study and six other studies, for-profit hospitals had higher charges. They make money on ancillary services, however, not room rates."

Dwight Gentry, formerly associate director of the not-for-profit New Hanover Memorial Hospital in Wilmington, puts it more bluntly in the report. "They [for-profit hospitals] pump up high the I-V [intravenous solution] and all the ancillary charges -- sky high."

B. Comparison of Levels of Indigent Care

The Center's findings on indigent care are based on a survey sent to all general, acute care hospitals in North Carolina. Sixty percent of the 129 hospitals replied, including both for-profits and not-for-profits. The data were later verified in telephone interviews.

The private not-for-profit and public hospitals responding to the survey provided uncompensated care in an amount equal to 8.4 percent of their gross patient revenue in 1984. This compares with 6.6 percent of gross patient revenue going to uncompensated care at investor-owned and managed hospitals -- 27.3 percent less than that provided by not-for-profit hospitals. (See Table 2, attached). Uncompensated care is defined in the study as the total of a hospital's indigent care, charity care, and bad debt.

"This finding is consistent with studies in California, Florida, Tennessee, Texas, and Virginia," says Harris. Harry Nurkin, president of Charlotte Memorial, a not-for-profit hospital, is not surprised by such a finding. "If they are investor-owned, their first obligation is to their investors. Providing services to people who are sick and injured is secondary," he says. But Earl Tyndall, administrator of Medical Park Hospital, which is managed by a for-profit corporation, contends "the emphasis on patient care and business orientation are identical at for-profit and not-for-profit hospitals." (Medical Park Hospital was an independent for-profit hospital until it was purchased by Carolina Medicorp, Inc. in 1986, and is now a private not-for-profit hospital.)

The increasing number of indigent patients is likely to become a major issue facing the N.C. legislature, says Harris. She cites a Duke University study which estimates that nearly 900,000 individuals in North Carolina have no health insurance at some point during the year.

C. Taxes Paid By For-Profits

The chief explanation offered by for-profit hospital officials for their lower levels of indigent care is that for-profits pay taxes to state and local governments. Again through use of surveys of hospitals, the Center found that for-profit hospitals do pay substantial amounts in taxes -- more than $7.5 million in 1984. Over $2.1 million was paid in local and state taxes. The vast majority of the taxes, however -- $5.4 million -- went to the federal government. (See Table 3, attached).

Among survey respondents, the highest contributor in total taxes was Frye Regional Medical Center in Hickory, which paid almost $2.6 million in total taxes in 1984. Highsmith-Rainey Memorial Hospital in Fayetteville paid the most in local property taxes ($203,203), while Frye Regional Medical Center and Raleigh Community Hospital paid the most in state income taxes ($290,709 by Frye Regional Medical Center and $258,294 by Raleigh Community Hospital).

For-profit hospital officials are also quick to point out that not only do they pay taxes, but they also cannot obtain a source of revenue available to not-for-profits -- tax-deductible charitable contributions.

The Center's research on charitable contributions to hospitals confirms this point. Foundations and corporations gave more than $15 million in charitable contributions to N.C. hospitals in 1982. The Duke Endowment alone made more than $13 million in grants to 62 hospitals for construction, equipment, and free bed days for indigent patients that year. Charitable contributions can thus be a large source of income for a not-for-profit hospital. For example, Cabarrus Memorial Hospital in Concord received grants from four different Cannon foundations in 1983.

D. Range of Services

Over the years, critics have charged that for-profit hospitals "skim the cream" in providing services. That is, detractors allege that for-profits offer only services that make money and do not offer other less lucrative services. The Center's findings on this matter were mixed.

In hospitals of medium size (101-399 beds), for-profit hospitals do offer a narrower range of services. Twelve services were offered more frequently by not-for-profits, including obstetrics and newborn nursery services, generally regarded as less profitable or revenue losers. By contrast, investor-owned hospitals were more likely to offer such profitable services as neurosurgery or thoracic (chest) surgery.

Among small (100 beds or fewer) hospitals, however, for-profits offered more services, particularly in the outpatient area. Small investor-owned and -managed hospitals offered outpatient clinic, outpatient surgery, and psychiatric outpatient services more frequently than not-for-profit hospitals.

E. Conclusions and Recommendations

Center researchers Harris and Kersey say their findings lead to two policy conclusions -- (1) the state needs to make available to the public more information about costs and charges of health care services; and (2) the state should develop a policy of allocating the burden of indigent care among hospitals. Harris and Kersey point out that there are advantages and disadvantages of for-profit hospitals and the Center is not recommending a prohibition on further expansion by for-profit hospital chains in the state. Other states such as Nevada have placed limits on the amount of profits hospitals can make.

The Center recommends that the General Assembly adopt legislation enabling the N.C. Medical Database Commission to collect data on costs, as well as charges, at all hospitals in North Carolina, and that the Commission publish this data in order to help the public make more informed choices in the health care marketplace.

The Center also recommends that the General Assembly enact a program to support care for indigent patients. The Center suggests three options: (a) require all hospitals to provide a statutory minimum amount of indigent care; (b) mandate that counties develop and fund their own indigent care programs; or (c) assess all hospitals an amount based on each hospital's gross patient revenues and use those assessments for a statewide fund for indigent care.

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit organization created to examine state government programs and important issues of public policy 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. Other funding comes from 109 corporate contributors and 700 individual members. In addition to its quarterly magazine, North Carolina Insight, the Center also publishes rankings of the effectiveness of all state legislators, and book-length research reports. Recent studies have been issued on state environmental policies, all boards and commissions in state government, and the rise of the two-party system in North Carolina.

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Copies of the printed report on Comparing the Performance of Investor-Owned and Not-for-Profit Hospitals in North Carolina will be available in about six weeks for $35.00 (plus $1.75 tax and $3.00 postage and handling) from the N.C. Center for Public Policy Research, P.O. Box 430, Raleigh, NC 27602, or call (919) 832-2839.

For more information call Lori Ann Harris, Marianne Kersey, or Ran Coble at the N.C. Center for Public Policy Research at (919) 832-2839.

For information about the public television program, call Ted Harrison of the UNC Center for Public Television at (919) 737-2853.

TABLE 1

Comparison of Daily Charges for Semi-Private Room for Seven Matched Pairs of Investor-Owned and Not-For-Profit Hospitals in North Carolina

Investor-Owned Hospital	Rates per day 1986	1987	Not-For-Profit Hospital	Rates per day 1986	1987
1. Raleigh Community Hospital (Raleigh)	$155	$155	Grace Hospital* (Morganton)	$175	$175
2. Frye Regional Medical Center (Hickory)	150	156	Margaret R. Pardee Memorial Hospital (Hendersonville)	137	143
3. Medical Park Hospital[a] (Winston-Salem)	124	135	Alamance County Hospital (Burlington)	172	172
4. Humana Hospital Greensboro[b]	155	155	Cape Fear Memorial Hospital (Wilmington)	124	141
5. Central Carolina Hospital (Sanford)	155	155	Stanly Memorial Hospital* (Albemarle)	139	169
6. Gordon Crowell Memorial Hospital (Lincolnton)	closed		Park Ridge Hospital* (Fletcher)	149	156
7. Community Hospital of Rocky Mount	143	143	J. Arthur Dosher Hospital (Southport)	139	139
Average daily room rate for investor-owned hospitals:	$147	$150	Average daily room rate for not-for-profit hospitals:	$148	$156
Median room rate for investor-owned hospitals:	$153	$155	Median room rate for not-for-profit hospitals:	$139	$156

* = rates available for private rooms only

[a] Medical Park Hospital was purchased by Carolina Medicorp, Inc. in 1986 and is now a private, not-for-profit hospital.

[b] Humana Hospital was purchased by Moses Cone Memorial Hospital, a private, not-for-profit hospital, in 1988.

Source: Telephone interviews with hospitals on November 6, 1986 and November 2, 1987 by N.C. Center for Public Policy Research staff.

TABLE 2

Uncompensated Care Provided By For-Profit and Not-For-Profit Hospitals in North Carolina, 1984

Variables	Eleven (11) Investor-Owned and Managed Hospitals Responding to Survey	Sixty-Four (64) Not-For-Profit and Public Hospitals Responding to Survey	Percent Difference
Average uncompensated care[1] as percentage of gross patient revenue[2]	6.6%	8.4%	27.3%
Average uncompensated care per bed	$7,000	$8,593	22.8%
Average uncompensated care per inpatient admission	$ 203	$ 237	16.7%
Average uncompensated care per inpatient and outpatient admission[3]	$ 44	$ 53	20.5%

[1]Uncompensated care is defined as the total of indigent care, charity care, and bad debt.

[2]Gross patient revenue consists of revenue from services rendered to patients including payments received from or on behalf of individual patients.

[3]Outpatient admissions include outpatient clinic visits, outpatient surgery visits, and emergency room visits.

Sources: N.C. State Center for Health Statistics, Health Facilities Data Book, 1984, and Surveys of Chief Executive Officers of general acute care hospitals in North Carolina by the N.C. Center for Public Policy Research.

TABLE 3

1984 Taxes Paid By For-Profit Hospitals (Investor-owned, managed, and leased)

Hospitals Paying Taxes in N.C.	County	Local Property Tax Paid	State & Local Sales Tax Paid	State Income Tax Paid	Federal Income Tax Paid	Other Taxes Paid	Total Taxes Paid	County Appropriations for Hospital Services
1. Highsmith-Rainey Memorial Hospital(IO)	Cumberland	$ 203,203	$ 50,195	$ 146,525	$ 1,055,961	$ 33,819	$ 1,489,703	0
2. Frye Regional Medical Center(IO)	Catawba	177,349		290,709	2,095,042	535	2,563,635	0
3. Raleigh Community Hospital(IO)	Wake	161,571	164,564	258,294	1,701,943	0	2,286,372	$ 3,846,000
4. Central Carolina Hospital(IO)	Lee	123,468	14,636	95,344	491,637	11,163	736,248	0
5. Davis Community Hospital(IO)	Iredell	61,056	70,985	9,129	62,195	0	203,365	0
6. Humana Hospital Greensboro(IO)[a]	Guilford	119,652					119,652[b]	205,000
7. Medical Park Hospital(IO)	Forsyth	73,286	16,773	0[c]	0[c]	0	90,059	0
8. Heritage Hospital(IO)[d]	Edgecombe	61,323					61,323[b]	0
9. Community Hospital of Rocky Mount(IO)	Nash	29,704					29,704[b]	0
10. Cape Fear Valley Medical Center(IM)	Cumberland	3,800[e]					3,800	0
11. Angel Community Hospital(IM)	Macon	2,939					2,939[b]	0
12. Ashe Memorial Hospital(IM)	Ashe	790[f]	0	0	0	0	790	0
TOTAL:		$ 1,018,141	$ 317,153	$ 800,001	$ 5,406,778	$ 45,517	$ 7,587,590[g]	

IO = Investor-Owned, IM = Investor-Managed

[a]Humana Hospital was purchased by Moses Cone Memorial Hospital, a private, not-for-profit hospital, in 1988.

[b]Denotes hospitals which did not respond to the North Carolina Center for Public Policy Research survey. Property tax information was supplied instead by the county tax supervisors. Thus, this figure may not accurately depict the total taxes paid by the hospital to other levels of government.

[c]Because Medical Park was a limited partnership in 1984, the hospital itself did not pay any state and federal income taxes. The holding corporation (Maplewood Corp. and Casstevens Co.) made all tax payments. Medical Park Hospital was sold to Carolina Medicorp, Inc. in 1986.

[d]Formerly Edgecombe General Hospital.

[e]Taxes were paid on property leased by the hospital. Cape Fear Valley Medical Center ended its management contract with National Medical Enterprises, Inc. in 1985, and is currently managed by SunHealth Enterprises.

[f]Taxes were paid on real property.

[g]84% of the federal, state, and local taxes paid by the 75 hospitals responding to the Center's survey came from six investor-owned hospitals (8% of the total sample of 75 hospitals). These six investor-owned hospitals contributed $7,369,382.