



Buyers Up • Congress Watch • Critical Mass • Global Trade Watch • Health Research Group • Litigation Group
Joan Claybrook, President

Statement in Support of HB2218 -- Sale or Conversion of Nonprofit Hospitals
By Sidney M. Wolfe, MD and Mary Gabay of Public Citizen's Health Research Group
January 22, 1997

To the Honorable Members of the Virginia General Assembly:

Public Citizen's Health Research Group is a national consumer research and advocacy organization founded in 1971 by Ralph Nader and Dr. Sidney Wolfe. We have spent considerable time and effort following the issues involved in the current wave of hospital merger and acquisition activity and the trend of nonprofit hospital conversions to for-profit status. Our June 1996 report, *Who Controls the Local Hospital?*, focused on the possible consequences of these hospital deals and on what communities can do to ensure that deals involving their local hospitals are done in the public interest.

We believe that one of the most disturbing elements of the current hospital merger and acquisition craze is the sale of not-for-profit hospitals to for-profit companies. In the past two years, 121 not-for-profit hospitals in the United States became for-profit entities as a result of a hospital deal, including six in the state of Virginia. This trend represents not only a high redeployment of billions of dollars in charitable assets, but also signals a fundamental shift away from the traditional not-for-profit structure of our health care delivery system.

What might these conversions mean for local communities? Some would suggest that the only effect for-profit takeovers will have on not-for-profit hospitals will be to make the hospitals more efficient. But consider the following three things:

- Not-for-profit hospitals provide a disproportionate share of low-volume, high-cost specialty services such as burn units, trauma care, neonatal intensive care units and AIDS care. Will for-profit hospitals be as committed to providing these essential, but often money-losing services?
- Over 40 million Americans have no health insurance, including 12 percent of the Virginia population (according to the 1994 Current Population Survey conducted by the U.S. Census). These uninsured individuals rely on hospitals as a safety net for access to health care services. Will the trend toward for-profit hospitals weaken this safety net? Will the new for-profit hospitals maintain the level of uncompensated care provided by the former nonprofit? Previous studies by Public Citizen's Health Research Group have shown that for-profit hospitals are more likely to illegally dump patients from their emergency rooms.
- When a national chain purchases a local community hospital, control of the facility is taken away from a local board of trustees (people who live and work in the community) and is given to a for-profit corporation which is headquartered elsewhere and is operating under the same legal obligation as any other for-profit company -- the

Ralph Nader, Founder

1600 20th Street NW • Washington, DC 20009-1001 • (202) 588-1000

obligation to promote shareholder wealth. What will happen when investor interests and community needs diverge?

Given what is at stake for communities, the case for aggressive regulation of these hospital deals is compelling. Increasingly, these transactions are coming under more scrutiny at the state level. In April of 1995, Nebraska became the first state to pass legislation requiring full public disclosure of the terms and conditions of these deals. The Nebraska law gives broad powers to the attorney general and other state regulators to review the proposed acquisition and approve or disapprove the acquisition based on whether it is in the community interest. The law requires a public hearing be held during the review process and that an independent valuation of hospital assets be made. Since the passage of Nebraska's law, the state of California has also passed a law dealing with not-for-profit conversions and the states of Massachusetts, Ohio and New Jersey have recently introduced such legislation. Attorneys General in Michigan and Texas have successfully sued to stop hospital sales.

Legislation that provides for notice alone will not begin to address the problems that currently surround nonprofit hospital conversions. Any legislation addressing this issue will be woefully inadequate if it does not require at the very least the following actions:

- Full public disclosure of the terms and conditions of the sale prior to the sale's completion. This is a very important issue because no one outside the process can make a credible challenge to the sale without knowing its terms and conditions.
- An independent valuation of hospital assets to ensure a fair price is paid for the hospital. Putting a dollar value on a hospital is a difficult task regardless of the circumstances. But when incentives exist to undervalue the institution (which often is the case in these types of deals), the situation cries out for some type of oversight. These assets belong to the community. If they are undervalued when sold, it is the community that loses.
- Review by the Attorney General, who should be given power to approve or disapprove the transaction based on the public interest. The review must include a public hearing and an analysis of the potential impact of the sale on the community.

Clearly, there are real issues of concern to communities at stake in these not-for-profit hospital sales. Communities face a potential loss of essential services, potential reductions in the amount of charity care provided to those without insurance, and an end to local control over a facility built by the community's charity and goodwill. As tax-exempt nonprofit institutions, hospitals involved in conversions received millions of dollars in support from their communities, not only in taxes foregone, but also in charitable contributions, volunteer time, and multiple other benefits. Legislation such as HB2218, which does require the three actions mentioned above, is needed to protect the public's interest in their nonprofit hospitals when these facilities face sale and conversion to for-profit status. We urge you to support HB2218.