

Date: November 21, 2011

To: Fellow Commissioners

From: Brad Dinkins

Re: dissolution of hospital districts, a recommendation to the "Commission on Review of Taxpayer Funded Hospital Districts" regarding Governor Scott's Executive Order # 11-63

## HISTORY

As we are aware the hospital industry needs and problems have changed greatly since Florida's "special hospital district" legislation first began in 1916. The last hospital district was created in 1990. **Of late some people have even questioned a need for their continuing existence.... that the hospital districts are now outdated and an unnecessary layer of government.**

## HOSPITAL DISTRICTS: ISSUES, CONCERNS, AND PROBLEMS

Bert Fish Hospital CEO, Steve Harrell, told us "**hospital districts are steeped in politics**". Regarding medicaid and other state payments to government and private hospitals, **we have found there is not a level playing field**. Many more concerns and problems have been brought to our attention by presentations to our Hospital Commission .... from ACHA representatives, attorneys, statisticians, lobbyists, hospital CEO's, hospital trustees, the public, citizen emails, and others. The information given to us and perhaps our own experiences with **governmental hospitals have demonstrated failures and inconsistencies of the "hospital district" governance models, a lack of financial accountability, operational inefficiencies, irrational business practices, transparency concerns, lack of indigent care accountability, questionable and imbalanced allocation of medicaid hospital reimbursement rates, and more.**

## LOCAL TAXES GO TO UNDERWRITE MISMANAGED AND INEFFICIENT HOSPITALS

Perhaps most disturbing is that often citizens are being required to subsidize the system and structural failures of public/government hospitals through increased sales or property taxes.

## LOCAL PROPERTY TAXES ARE GIVEN TO PROFITABLE HOSPITALS

We have found that some **private and public hospitals are receiving local tax support, while making profits, sometimes substantial profits**. This should not continue.

## LOCAL TAX SUBSIDIES, ARE THEY FAIR ?

It seems our fellow citizens already pay more than their fair share. For example, through the state-wide sales tax and federal income tax we support the poor and needy through subsidies for medicare, medicaid, LIP, DSH and other state tax- funded hospital subsidies. There's even more citizen tax subsidies that go to hospitals because of their charity exemptions for property taxes, corporate and sales tax, and federal income tax. In total, **local property and sales taxes are unjust and unfair if quality hospital care can be provided without them**. The question, can such quality care be done without local taxes. The answer is YES, and it's being done throughout Florida

## HOSPITALS CAN DO IT WITHOUT LOCAL TAX SUPPORT

**YES, even without local tax subsidies private hospitals (profit and nonprofit) have succeeded in providing quality health care ....** as have some well managed government hospitals that appeared before us, such as Lee Memorial Health Systems of Lee County (about \$21 million profit per their latest available financial) and Munroe Regional of Marion County ( about \$18 million profit last year), and they do so with difficult case mixes while providing excellent healthcare, and without local tax support.

## **PRIVATE HOSPITALS DO IT BETTER (both private for profit and nonprofit)**

In principle and practice the private free-market business model can deliver goods and services in a more efficient and cost effective manner than government-run models. The numbers given to us concur, that **Florida's private hospitals in general operate more efficiently and effectively than public ones ....** and can do so without local tax subsidies. In our review of hospital operations **private hospital success seems to boil down to better cost management, better operational efficiencies, and better financial controls.** In fact we have been shown that the average hospital patient expense per day is more costly in government-hospitals. So why legislate or give special favor to public/government hospital models if they operate inferior to the private ones? This approach is unfair to our citizens. I believe the state should rescind authority for hospital districts to influence or place property and sales taxes on the citizens of Florida ...in order to underwrite a hospital's inferior operational and financial management. It's happening throughout Florida, it's wrong, and it should be discontinued.

## **INDIGENT CARE**

A primary justification for developing "hospital districts" and other public/government facilities was to raise tax support to pay for indigent care. But it's not necessary now, as **all local/county governments have statute authority to raise indigent care support via a county-wide sales tax referendum.**

## **TAXATION WITHOUT REPRESENTATION**

The state has given many hospital districts the power to locally tax citizens without there ever being a voter referendum to do so. THIS IS WRONG. **If local taxes are to be imposed it should only be done by a vote of the people, that is, by the citizens that would be impacted by the tax.** Dr. Francis Melese wrote for the Reason Foundation, *"Benevolent citizens have learned the hard way that running a public hospital is a tough business. Municipalities throughout the country and around the world have demonstrated they can serve indigents more efficiently and effectively by selling public hospital assets and turning to the private sector"*.

## **HOSPITAL REFORM IS NEEDED NOW**

**I believe hospital districts, including all other government operated hospitals, need reform.** In light of the complex issues, rules, regulations, and processes of the hospital industry I have been trying to think of a simple solution that is free-market driven, allows for indigent care and quality healthcare, and that would return authority, power, and control of taxpayer monies back to the citizen taxpayers.

## **DISSOLVE THE HOSPITAL DISTRICTS, PUBLIC/GOVERNMENT HOSPITALS AND MOVE OWNERSHIP TO THE PRIVATE NONPROFIT AND FOR PROFIT SECTOR**

My solution and suggestion is that we develop legislation to submit to Governor Scott, that would fulfill this goal: **Dissolve all "hospital districts", as Representative Metz has also requested to do in his North Lake County Hospital District legislative draft, but go a step further and require that all "hospital district" and public/government hospitals and their related assets be conveyed/divested of/sold ... to private sector nonprofits or for-profits?** In other words the state of Florida would get out of the business of legislating and sanctioning public/government operated hospitals, which the evidence clearly says we should do .... **if we want more efficient and cost-effective hospitals.... with less local tax cost to the citizens of Florida.** I realize this is a bold step but I believe a bold step is required, especially in the difficult economic times our citizens face. Our citizens need less taxes, not more.

## **IT'S HAPPENING ACROSS THE NATION**

**Across the nation we see increased momentum in the sale of public hospitals and hospital consolidation.** A spokesman for Ponder and Company, a major mergers and acquisition company, wrote in April, 2011 *"Since the beginning of 2010, mergers and acquisitions activity in the acute care sector has increased significantly. The rate at which hospital transactions are being announced has increased by over 50% in less than a year and a half. Activity is up significantly for both not-for-profit and for-profit healthcare systems"*.

## **SELLING A HOSPITAL SUPPLIES NEEDED FUNDING FOR INDIGENT CARE**

The proceeds from a sold hospital could go to the local voter-elected governing body, most likely the Board of County Commissioners .... and these funds could be put in a trust fund and used to provide for ongoing indigent care needs. **Here's such a success story from Manatee County.** In 1984 Manatee Memorial, a public hospital, was sold to a private company. The sale netted \$45 million and the county commission put the money into a "Health Care Trust Fund" to provide for indigent care. The Fund balance in 2011 is \$35.9 million. The TRUST now supplies indigent funding for 3 hospitals in Manatee County.

## **OWNERSHIP TRANSFER ADDS NEEDED CASH FLOW TO THE GOVERNMENT**

A BIG benefit of the dissolution of hospital districts is that for any public/government hospital sold to private for-profit organizations .... **there would be an additional revenue stream to the government because the private sector would have to start making payments for property taxes, local and state sales taxes, state corporate taxes, and federal income taxes.**

## **REAL GOVERNMENTAL REFORM: IMPLEMENTING LESS GOVERNMENT, LESS TAXES, AND MORE ECONOMIC FREEDOM**

Will we heed the words of reason, fairness, and common sense .... words that are sound and likely reflect the majority of Florida's taxpayers .... words that are calling for "less government, less taxes, and more economic freedom". May we work together to bring such change to pass, needed and perhaps revolutionary change, change that will make a DIFFERENCE in the lives of Florida's taxpayers.

## **PER GOVERNOR SCOTT: "THE PRIMARY SHAREHOLDER - THE TAXPAYER"**

In Governor Scott's Executive Order he has asked us, along with other requests, to determine if government (public) hospitals "have consistently acted in the best interest of the primary shareholder -- the taxpayer." I believe he genuinely cares for the taxpayers of Florida and out of this concern has put forth this Order. Out of duty and honor I believe we owe our Governor reasoned, honest, and straight forward answers. We must avoid any preferential treatment towards hospital lobbyists, hospital executives, special interest groups, or others who would try to influence us against the best interests of the citizen taxpayers. Governor Scott has taken a lot of heat for standing tall to bring bold TAX REFORM to the citizens of Florida .... and I believe we should act with that same boldness. He has demonstrated courage in challenging the status quo while facing opposition from many powerful fronts, but has remained steadfast. Likewise I believe we too should take courage in the event we are so challenged.

## **RECOMMENDATION SUMMARY**

Governor Scott has asked us to submit our findings, recommendations, including suggested legislative action, to him, the speaker of the House of Representatives, and the President of the Senate on or before January 1, 2012. **I therefore suggest that the best thing to do for the citizen taxpayers of Florida is to dissolve Florida's "hospital districts" and related public/government hospitals, in a responsible manner ..... and require the sale of these hospitals and their assets, over a reasonable time frame.** I realize that REFORM and change is not easy for those that are impacted, and I don't take it lightly. Change brings resistance and so we can expect opposition to come. However if we want a big improvement we must make big changes. May we work together to do just that. **I suggest and welcome your discussion, comments and thoughts on how this recommendation can be shaped to provide the maximum benefit for the citizen taxpayers of Florida.**