CENTER TO RELEASE FIRST REPORT ON FOR-PROFIT HOSPITAL TREND IN NORTH CAROLINA

The Center's latest major research project focuses on investor-owned hospitals in North Carolina. Since 1980, the number of investor-owned hospitals in North Carolina has increased dramatically—representing a significant new direction in health care. The Center is examining that trend with a series of three reports on for-profit hospitals in the state. The first report is due out this fall.

The first report reviews issues raised by for-profit involvement in the hospital industry. It contains individual profiles of the hospitals owned or managed by the 11 investor-owned multi-hospital systems operating in the state, and it identifies some of the possible factors leading to the acceleration of investor-owned involvement in North Carolina. The report also examines several other components of the health care industry, relatively new to the state, which are fast-growing and affect the viability of the state's community hospitals.

Below are excerpts from the executive summary of the first report, edited by Center Research Coordinator Elizabeth M. "Lacy" Maddox. For more information, contact Ms. Maddox at the Center, Box 430, Raleigh, N.C. 27602, (919) 832-2839.

Since World War II, most hospitals in this country have been locally owned not-for-profit or public facilities, but two interrelated structural changes are rapidly redefining the traditional patterns of hospital ownership and management. First, the proprietary or for-profit sector has taken an increasingly active role within the health care industry. Second, there is a growing tendency for independently owned hospitals to enter into multi-institutional arrangements.

Types of Hospital Ownership

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 the nation's public hospitals are community-based and are owned by counties, cities, local or regional hospital districts, or special hospital authorities. Wake Medical Center in Raleigh is one such hospital.

Not-for-profit hospitals (secular and religious) are privately owned and operated as charitable, community service organizations. They are tax-exempt. Mercy Hospital in Charlotte is a not-for-profit hospital.

Investor-owned hospitals are also privately owned; however, they are not tax-exempt. The major distinction between investor-owned hospitals and other types of hospital ownership is profit orientation. Humana Hospital of Greensboro is an investor-owned, for-profit hospital.

Since 1975, the number of investor-owned hospitals in the United States has increased dramatically. The Federation of American Hospitals says that between 1977 and 1982 there was a 43 percent increase in the number of beds owned by the investor-owned hospital sector.

Advantages and Disadvantages of Investor Ownership of Hospitals

The report identifies a number of possible advantages and disadvantages of for-profit hospital ownership and management. The potential **advantages** include:

- *Access to private capital.* First, the major advantage investor ownership or management contracts *may* offer is access to private capital that can be used to repair a hospital building or to replace an old facility with a new one. Harrison Ferris, administrator of the Hospital Corporation of America-owned Raleigh Community Hospital, said that capital formation is an important advantage. "Profit is the cost of doing business tomorrow," said Ferris.

■ *Access to a national personnel pool.* Second, investor-owned corporations may use their national systems to develop a pool of qualified personnel, particularly hospital administrators.

■ *Management expertise.* Third, related to this is the advantage of management expertise. The skills required to be a good county commissioner or a good doctor are not necessarily the same skills that would guarantee a well-run hospital providing high-quality medical care at a reasonable cost in an up-to-date facility which doesn't lose money.

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■ *Volume purchasing.* Fourth, any multi-institutional system has the advantage of saving money through large volume purchases of basic medical necessities like intravenous solutions.

■ *Promoting competition in the hospital sector.* The fifth possible advantage is that the presence of investor-owned hospitals in a community may increase competition in the health care sector generally.

■ *Tax advantages.* The sixth advantage is that if the hospital changes from a county-owned or other public facility to an investor-owned facility, it may also change from being tax-supported to being a taxpayer, simply because investor-owned hospitals are subject to local property taxes and corporate income tax levies.

■ *Taking local governments out of the hospital business.* The final apparent advantage applies only to hospitals owned by local governments. County commissioners or council members who turn over a facility that had been losing money to a private company frequently say a burden has been lifted from their shoulders.

The Center's research also turned up these potential **disadvantages:**

■ *Investor-owned hospitals may have higher charges.* The chief possible disadvantage of investor-owned hospitals is that they may have higher charges. In January of 1984, Blue Cross-Blue Shield of North Carolina released a study of average charges to Blue Cross subscribers in 1981-82 for three procedures in North Carolina acute care hospitals that were owned by investor-owned chains that had enough cases to provide valid charge data. Their findings were that charges were higher in six investor-owned hospitals than for other hospitals of similar size in North Carolina.

■ *Indigent care.* A second concern about hospitals affiliated with investor-owned corporations is whether they provide less indigent care than do not-for-profit hospitals.

■ *Skimming the cream.* A third possible disadvantage of investor-owned operations can occur if the hospitals affiliated with investor-owned corporations narrow the range of services or alter the patient mix such that investor-owned hospitals get more of the *paying* patients — leaving fewer such revenue-producing patients or services for not-for-profit hospitals.

■ *Changing the nature of health care.* And finally, just as there is a political factor that may be an advantage of investor-owned corporations, there is a philosophical factor that is sometimes suggested as a disadvantage. That is the question of whether profit considerations properly belong in the delivery of hospital care.

This report examines the 164 non-federal hospitals in North Carolina, which are located in 85 of the state's 100 counties. No hospitals are located in the remaining 15 counties, which are situated primarily along the more sparsely populated coastline.

Excluding the nine federal facilities in the state, North Carolina has 70 public hospitals. Of these 70 hospitals, 11 are owned and operated by the state, 49 by counties, five by specially created hospital authorities, two by cities, two by hospital districts, and one by a township. Of the 49 county-owned facilities, only 10 are county operated. Thirty-one are managed by not-for-profit corporations created solely for the purpose of hospital management or by the multi-institutional, not-for-profit company called SunHealth, Inc. Two county hospitals are managed by hospital authorities, and five are operated under management contracts by investor-owned corporations. The remaining county-owned facility is leased to an investor-owned corporation which exercises complete control over the facility. Of the 10 facilities owned by other local governmental units, seven are operated by not-for-profit corporations and three by the owner of the facility.

Sixty-eight of North Carolina's hospitals are owned by not-for-profit corporations. An example of a not-for-profit hospital is Presbyterian Hospital in Charlotte. Fifty of these hospitals (74 percent) are managed by the corporation that owns the facility. Eleven are part of the SunHealth Network or of the Sun-Alliance—management corporations owned by the not-for-profit SunHealth, Inc., based in Charlotte. Investor-owned corporations manage seven hospitals owned by local, independent, not-for-profit corporations.

Of the state's 40 hospitals operated on a for-profit basis, 26 are investor-*owned* and operated, 13 are *managed* under contract by an investor-owned multi-hospital system, and one is operated under a *lease* arrangement by an investor-owned system. Of the 26 investor-owned and operated hospitals, two are independent, doctor-owned facilities. One is managed by the owning physicians, while the other is operated under a management contract by an investor-owned multi-hospital system. Twenty-four hospitals are owned and operated by investor-owned multi-hospital corporations.

One hundred-thirty of North Carolina's 164 non-federal hospitals are general, acute care facilities. The remaining 34 provide a broad range of specialty care. Fourteen are psychiatric hospitals. Ten specialize in the treatment of alcohol or chemical dependency. The others include four rehabilitation hospitals; two eye, ear, nose and throat hospitals; one cancer institute; one orthopedic hospital; and two prison hospitals. The size of North Carolina's hospitals ranges from a low of 12 beds to a high of 946 beds. Seventy of the state's 164 nonfederal hospitals, or 43 percent, have fewer than 100 beds and are considered small hospitals. Seventy-four of the 164, or 45 percent, are medium-sized with between 100 and 399 beds. The twenty remaining nonfederal hospitals (12 percent) have 400 or more beds each and are considered to be large hospitals.

Eleven investor-owned multi-hospital systems currently are active in the state, owning and operating or managing under contract a total of 39 hospitals. One other is independently owned. Only one of these 11 systems—Hospital Corporation of America (HCA)—both owns and manages hospitals in North Carolina. Seven systems operate in the state only as hospital owners and operators. Three investor-owned systems are engaged exclusively as hospital managers.

Factors Affecting the Changeover to Investor Ownership

Many experts in the area of hospital management believe that each community hospital will eventually be faced with the decision to join, or sell to, a multi-institutional arrangement. They further conclude that the option to remain unaffiliated can be preserved through careful planning.

The rapid expansion of the investor-owned segment of the nation's hospital industry over the last 10 years has led observers to speculate as to the factors underlying the growth. Hospitals have had to cope with regulatory controls, competition from other health care providers, capital funding problems, political pressures, the growth of the elderly population, more expensive technology, cash flow problems, updating aging facilities, changes in Medicare payments—and the list could go on.

As part of its research, the Center tested two hypotheses. The first was that public hospitals are more likely to join investor-owned hospital systems than are not-for-profit or independent proprietary hospitals. But the Center found that *thus far*, this has not been true in North Carolina. 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 in North Carolina.

The second hypothesis was that a decision by public or not-for-profit hospitals to join an investor-owned system frequently follows the defeat of a local hospital bond referendum. The Center's research found that this is not true. Based on available evidence, it appears that no significant relationship exists between these two events. From 1970 through the first quarter of 1983, only one public hospital (Lee County Hospital) was sold to an investor-owned corporation after the defeat of a local hospital bond referendum.

The traditional hospital has been likened to a bleeding porpoise surrounded by hungry sharks. The sharks are freestanding ambulatory surgery centers, urgent care centers, diagnostic centers, changes in reimbursement and physician practice, and a plethora of other new facilities competing with the traditional general hospital. Some health care experts believe that the very existence of many hospitals will be threatened as these competitors turn one hospital profit center after another into a money loser.

"If you pull out the parts of the hospital that are profitable," said John Young, a staff researcher with the N.C. General Assembly, "the hospital will be unable to stay afloat. ... The hospital system as we know it will fly apart."

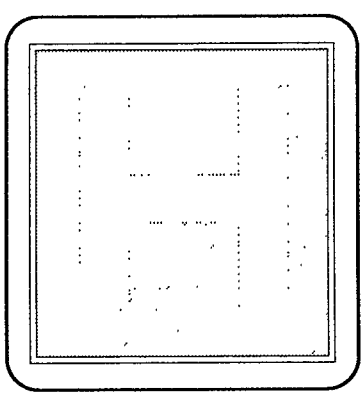

Table 1. Comparison of the 10 Largest Investor-Owned Hospital Management Companies in the United States, and the 11 Investor-Owned Management Companies in North Carolina

Company	Number of Hospitals[1]	Number of Beds
UNITED STATES[2]		
1. Hospital Corporation of America	417	59,946
2. American Medical International	142	19,673
3. Humana, Inc.	92	18,311
4. National Medical Enterprises	71	11,388
5. NuMed, Inc.	24	6,714
6. Charter Medical Corporation	56	5,798
7. Republic Health Corporation	33	3,935
8. Universal Health Services	30	3,486
9. Paracelsus Hospital Corporation	23	3,407
10. Hospital Management Professionals	24	3,016
NORTH CAROLINA[3]		
1. Hospital Corporation of America	16	1,727
2. American Medical International	4	492
3. National Medical Enterprises	1	492
4. Healthcare Services of America	5	296
5. Psychiatric Institutes of America	2	250
6. Charter Medical Corporation	3	241
7. Humana, Inc.	2	198
8. Hospital Management Professionals	1	133
9. The Delta Group	1	65
10. United Medical Corporation	1	64
11. Health Care Management Corporation	1	31

[1]The numbers of hospitals and beds include domestic and foreign-owned, leased, or managed hospitals, and hospitals under construction as of September 30, 1984.
[2]Source: *1985 Directory of Investor-Owned Hospitals and Hospital Management Companies,* published for the Federation of American Hospitals by FAH Review, Inc., Little Rock, Arkansas.
[3]Compiled from N.C. Center research.

In this initial report, the Center looks closely at those North Carolina hospitals which have opted for affiliation with an investor-owned corporation, and delves into some of the problems facing hospitals of the 1980s.*

In its second report, due out in 1986, the Center will present an analysis of the differences between investor-owned hospitals and other hospitals in the state. The report will examine the reasons underlying North Carolina hospitals' decisions to join investor-owned systems, and how community and hospital officials view the impact of investor ownership on hospital care in this state.

The final report will be intended for use primarily as a guide to assist the public, county officials, and hospital officials in making decisions about affiliating with a multi-hospital system, whether for-profit or not-for-profit. And the guide will discuss how community and hospital officials should go about making sound decisions regarding the future of their hospitals. □

**Since completion of this initial report, several changes in hospital ownership and management have taken place. Those changes are not reflected in this first report, but will be included in the second and third reports. Because of these changes, Table 2 shows a total of 40 investor-owned hospitals.*

Table 2. Investor-Owned and Managed Hospitals in North Carolina

	Name	Location	Number Beds	Type	Owned/ Managed	Date
1.	Hickory Memorial	Hickory	47	P	O-UMC	1979
2.	Frye Regional Medical Center	Hickory	218	G	O-AMI	1974
3.	Davis Memorial	Statesville	167	G	O-HCA	1983
4.	Humana Hospital	Greensboro	100	G	O-Humana	1977
5.	Central Carolina	Sanford	142	G	O-AMI	1980
6.	Highsmith-Rainey	Fayetteville	95	G	O-HCA	1983
7.	Raleigh Community	Raleigh	140	G	O-HCA	1977
8.	Community Hospital of Rocky Mount	Rocky Mount	50	G	O-AMI	1981
9.	Edgecombe General	Tarboro	127	G	O-HCA	1982
10.	Highland	Asheville	125	P	O-PIA	1981
11.	Appalachian Hall	Asheville	100	P	O-PIA	1981
12.	Orthopaedic Hospital	Charlotte	166	S	O-HCA	1982
13.	Charlotte EE&T	Charlotte	68	S	O-Humana	1981
14.	Mandala Center	Winston-Salem	75	P	O-CMC	1981
15.	Charter Hills	Greensboro	100	P	O-CMC	1981
16.	McPherson	Durham	32	S	O-Ind	1926
17.	HSA Cumberland	Fayetteville	154	P	O-HSA	1983
18.	Life Center of Fayetteville	Fayetteville	34	P	O-HSA	1984
19.	Holly Hill	Raleigh	58	P	O-HCA	1981
20.	Brynn Marr Treatment Center	Jacksonville	34	P	O-HSA	1983
21.	Life Center of Jacksonville	Jacksonville	47	P	O-HSA	1984
22.	Life Center of Wilmington	Wilmington	27	P	O-HSA	1984
23.	Charter Northridge	Raleigh	66	P	O-CMC	1984
24.	Blackwelder Memorial	Lenoir	31	G	O-HCMC	1985
25.	Charter Pines	Charlotte	60	P	O-CMC	1985
26.	Medical Park	Winston-Salem	136	G	O-Ind/ M-HCA[1]	1985
27.	Angel Community	Franklin	81	G	M-HCA	1983
28.	Spruce Pine Community	Spruce Pine	88	G	M-HCA[2]	1982
29.	Burnsville Hospital	Burnsville	24	G	M-HCA	1982
30.	The McDowell Hospital	Marion	62	G	M-Delta	1982
31.	Ashe Memorial	Jefferson	76	G	M-HCA	1981
32.	Person County	Roxboro	88	G	M-HCA	1981
33.	Cape Fear Valley	Fayetteville	473	G	M-NME	1982
34.	Johnston Memorial	Smithfield	180	G	M-HCA	1982
35.	Brunswick County	Supply	60	G	L-HCA	1981
36.	Franklin Memorial	Louisburg	76	G	M-HCA	1983
37.	Lowrance Hospital	Mooresville	121	G	M-HCA	1983
38.	Morehead Memorial	Eden	133	G	M-HMP	1984
39.	Rutherford Hospital	Rutherfordton	165	G	M-HMP	1985
40.	Hugh Chatham Memorial	Elkin	96	G	M-HMP	1985

G — General hospital (primarily)
P — Psychiatric
S — Specialty

O — Owned
M — Managed
L — Leased

Full names for the corporations listed above are as follows:

AMI ..... American Medical International
CMC/Charter ..... Charter Medical Corporation
Delta ..... The Delta Group, Inc.
HCA ..... Hospital Corporation of America
HMP ..... Hospital Management Professionals
HCMC ..... Health Care Management Corp.
HSA ..... Healthcare Services of America
Humana ..... Humana, Inc.
NME ..... National Medical Enterprises, Inc.
PIA ..... Psychiatric Institutes of America
UMC ..... United Medical Corporation
Ind ..... Independently owned, not affiliated with a chain.

[1]Medical Park Hospital is an investor-owned hospital that is also managed by an investor-owned hospital management company, Hospital Corporation of America.

[2]Spruce Pine Community Hospital and Burnsville Hospital are the only hospitals in the Blue Ridge Hospital System, which is managed under contract by Hospital Corporation of America.