

Evaluating Opportunities for Government-Sponsored Hospitals

by Alex Voss and Alexandra Normington, Juniper Advisory

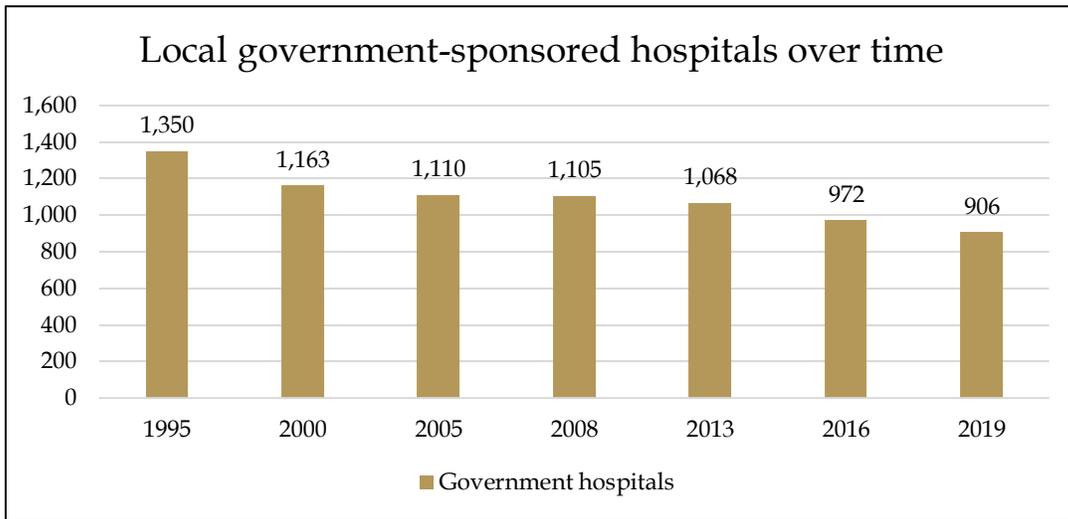
Government hospitals have been increasingly active in mergers and acquisitions in recent years, particularly as regional markets have further consolidated and investor-owned systems’ development streaks have waned. For some government health systems, this means growing their footprint in the region they serve. For others, it means assessing their long-term sustainability as a government-sponsored entity and seeking a private partner.

As pressures compound on the healthcare industry, including the ongoing stress of the COVID-19 pandemic recovery, elected officials and healthcare administrators will continue to weigh the advantages and drawbacks of government hospitals, taking into consideration factors like those below:

Cost and Quality	<i>Advantage</i>	The local government-sponsored hospital is typically the de facto provider of indigent care. The ability to secure funding to bridge operational losses ensures the hospital is not unduly penalized (i.e. through risk-based contracts, readmission penalties) for caring for vulnerable, un-or under-insured patients with complex medical needs. With governmental dollars and ties, the hospital is also best positioned to invest in preventative care and population health.
	<i>Drawback</i>	The healthcare industry, from physicians to hospitals to payors, is moving from volume to value-based reimbursements. Unconditional government allocations do not incentivize the hospital to cut costs, provide higher quality or be more efficient with resources; government funding may essentially underwrite the hospital’s inefficiency.
Funding Sources	<i>Advantage</i>	Most local governments have the authority to levy taxes and may also be able to leverage bond issuances and general revenue funds to support healthcare services. These can be more reliable sources of revenue than reimbursements for patient care services.
	<i>Drawback</i>	Unlike schools and public works, taxpayers may not perceive the necessity of funding healthcare services, particularly when many hospital peers are operated privately as non-profits. Dollars allocated to the hospital are always at-risk during tax cuts. Tax support is often most necessary for the hospital during economic downturns, precisely when taxes are most burdensome for citizens and revenues decline. The pandemic may provide an all-too-real example of this paradox.

Liquidity	<i>Advantage</i>	The ability of a local government to provide an infusion of cash during an economic downturn or emergency protects the viability of the hospital as a critical public resource when it is needed most. This occurred frequently during the COVID-19 pandemic with local governments providing loans and grants to support critical hospital functions while elective procedures were halted.
	<i>Drawback</i>	Government funding comes with explicit and/or implicit strings attached that may incumber the hospital's operations. In addition, accessing funds results in moral hazard where the hospital does not save for a rainy day like most private organizations, assuming they will be bailed out as "too essential to fail".
Public Disclosure	<i>Advantage</i>	As a publicly sponsored entity, the hospital is obliged to disclose information about its clinical services and business operations. This serves to inform the community about the hospital's activities and provide oversight for the hospital's public resources.
	<i>Drawback</i>	Public disclosure requirements can give the hospital's private competitors (who do not have the same reporting burden) unfettered access to the hospital's strategic plans and a distinct competitive advantage.
Governance	<i>Advantage</i>	Public funding generally comes with some degree of governmental oversight, giving elected officials and their constituents a unique role in setting the hospital's strategic direction and ensuring the hospital is meeting the health needs of its community.
	<i>Drawback</i>	Public dollars often come with the requirement that elected officials be a part of (either directly, through appointment or indirect influence) the hospital's governance. The delivery of healthcare and hospital administration are complex and ill-suited to the addition of government bureaucracy.
Mission	<i>Advantage</i>	The government-funded hospital serves as the true local healthcare safety net, providing care to all regardless of ability to pay, and acting as a steward of public health.
	<i>Drawback</i>	Nonprofit charities can and do often serve the role of providing for those most in need. While some see this as a role for government, many will not see hospital administration as the best utilization of government/taxpayer resources.

In the aggregate, local government hospitals will continue to look to partner with larger private health systems, as illustrated in the chart below. This trend will be accelerated as the COVID-19 pandemic has stretched thin already scarce resources and uncovered weaknesses in our nation’s health delivery system.



Juniper Advisory has helped numerous government-sponsored hospitals consider their positions and the opportunities available to accomplish their strategic objectives. Each government-sponsored hospital is unique. In some cases, funding for the hospital truly is necessary to sustain it as a vital community resource. In other cases, a private partnership may provide benefits beyond what is achievable with modest public funds while also mitigating some of the drawbacks of governmental operation. Evaluating the ongoing viability of a government relationship can be challenging and emotional. However, most optimal outcomes can be achieved when all stakeholders prioritize the health of their communities and sustainability of the hospital above all other objectives.

To learn more about Juniper’s thinking on government-sponsored hospitals read:

- [Public Hospitals and Partnerships](#), American Hospital Association’s Trustee Magazine
- [Government-Affiliated Hospital Business Combinations: The Governance Dynamic](#), The Governance Institute e-Briefing

For more information, contact: Alex Voss at 312.506.3002 or avoss@juniperadvisory.com.