

Evaluating Opportunities for Government-Sponsored Hospitals

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The COVID-19 pandemic is straining hospital and governmental resources. It is also serving as a catalyst for a major evolution of our nation's healthcare delivery system, the likes of which we have never before seen. With this confluence of factors, local governments and the hospitals they support are presented with a unique chance to evaluate the sustainability of their relationship.

For some government health systems, this may mean exploring opportunities to grow their footprint, often by supporting less-resourced 501(c)3 hospitals within or adjacent to the municipality they serve. For others, it means assessing the long-term durability of their governmental status and, in some cases, considering a conversion to an independent, non-profit entity.

Understanding the impact of government sponsorship on the hospital's ability to meet its objectives is critical. Below are several key issues hospital leaders and elected officials should take into consideration when evaluating governmental sponsorship and common advantages and drawbacks to each:

Cost and Quality

Advantage: 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 well positioned to invest in preventative care and population health.

Drawback: 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; the government money can essentially underwrite the hospital's inefficiency.

Funding Sources

Advantage: 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.

Drawback: Unlike schools and public works, taxpayers may not perceive public healthcare funding as a proper role for government, particularly when most hospital peers are operated privately. 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.

Liquidity

Advantage: 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 most needed. This occurred frequently during the COVID-19 pandemic with local governments providing loans and grants while elective surgeries cease.

Drawback: Government funding comes with explicit and/or implicit strings attached that may encumber 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

Advantage: 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.

Drawback: 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

Advantage: 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.

Drawback: 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 often ill-suited to the addition of government bureaucracy.

Mission

Advantage: 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.

Drawback: 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.

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. In the aggregate, local government hospitals will continue to look to align with larger private health systems, utilizing a variety of partnership structures. This trend will be accelerated as the pandemic has stretched thin already scarce resources and uncovered weaknesses in our nation's health delivery system.

Yet, as challenges persist for hospitals of all ownership types, there will be opportunities for government-sponsored systems to serve as a crucial backstop for local 501(c)3 hospitals. Successful public health systems have become increasingly active as acquirers, preserving access to care at community non-profit hospitals that may have otherwise faced service cuts or closure.

Juniper Advisory has helped numerous government-sponsored hospitals consider their positions and opportunities to accomplish their strategic objectives. Each government-sponsored hospital is unique. In some cases, public funding for the hospital truly is necessary to sustain 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

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