Report To

The Mississippi Legislature

A REVIEW OF HOSPITAL PRIVATIZATION IN MISSISSIPPI AND A SUMMARY OF THE LEASE PROVISIONS OF METHODIST MEDICAL CENTER AND BAPTIST MEMORIAL HOSPITAL-NORTH

August 20, 1991

Privatization of public hospitals appears to be a trend throughout America because of the increasing cost of operations for public entities. Privatization of a public hospital occurs through sale, leasing or entering management contracts. Forty-four of Mississippi's 106 hospitals are public, with the remaining sixty-two hospitals operating under private management.

PEER reviewed the lease transactions of Methodist Medical Center in Jackson and Baptist Memorial Hospital - North in Oxford. If lease provisions of both leases are fulfilled, the public health and welfare of the citizens of Hinds and Lafayette counties may be improved. Both entities complied with all relevant state laws in their procurement of personal services for lease negotiations.

The PEER Committee

PEER: THE MISSISSIPPI LEGISLATURE'S OVERSIGHT AGENCY

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

An extension of the Mississippi Legislature's constitutional prerogative to conduct examinations and investigations, PEER is authorized by law to review any entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

A REVIEW OF HOSPITAL PRIVATIZATION IN MISSISSIPPI AND A SUMMARY OF THE LEASE PROVISIONS OF METHODIST MEDICAL CENTER AND BAPTIST MEMORIAL HOSPITAL - NORTH

August 20, 1991

The PEER Committee

Mississippi Legislature

The Mississippi Legislature
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August 20, 1991

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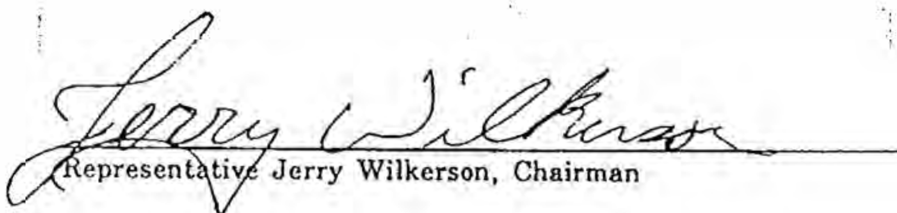
At its meeting of August 20, 1991, the PEER Committee authorized release of the report entitled **A Review of Hospital Privatization in Mississippi and a Summary of the Lease Provisions of Methodist Medical Center and Baptist Memorial Hospital-North.**



Representative Jerry Wilkerson, Chairman

This report does not recommend increased funding or additional staff.

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A REVIEW OF HOSPITAL PRIVATIZATION IN MISSISSIPPI AND A SUMMARY OF THE LEASE PROVISIONS OF METHODIST MEDICAL CENTER AND BAPTIST MEMORIAL HOSPITAL - NORTH

EXECUTIVE SUMMARY

BACKGROUND

Public hospitals owned by cities and counties represent about thirty percent of the nation's acute care hospitals. These hospitals operate from income generated by charges for services and, except for ownership, are indistinguishable from private hospitals. Local government has financed any difference in the past between the revenues and the costs to operate the hospitals. In 1988, however, barely one-third of the public hospitals in America were able to cover their operating costs and the average public hospital had an operating deficit of approximately $8 million. Unable to operate under such financial strain, many public hospitals have either closed or privatized. From the late 1970's to 1985, 180 public hospitals in the United States were purchased, leased or managed by for-profit hospital chains.

Privatization of a public hospital occurs in one of three forms: sale, lease agreement or management contract. Outright sale of the hospital is the most complete form of privatization. Under a lease, the public and the governing board release all control of the health facility to some other entity in return for lease payments. Under a management contract the public continues to own the facility and the board of trustees continues to vote on all decisions of the facility; however, the management team under contract operates the facility under the established policies of the board.

To identify the issues and trends prevalent in today's health care arena, specifically those relative to privatization, PEER reviewed current literature of the health care industry. Limited finances are influencing hospitals' decisions to consider privatization. Cuts in federal programs, such as Medicare and Medicaid, are one factor in these limited finances. Potential degradation of indigent care is a particular concern of the opponents of privatization who fear that the private sector will be insensitive to non-paying patients.

Supporters of privatization generally claim that privatized health facilities operate in a more efficient manner because of centralized management, purchase discounts and other economic opportunities available to them due to the size of for-profit hospital chains. Supporters also argue that private for-profit facilities have the resources available to invest in new equipment and/or technology and improved facilities, resources which many local governments cannot afford.

Opponents of privatization argue that privately held facilities engage in what is referred to as "creaming"— a conscious effort to admit patients who have the financial resources or insurance to cover medical expenses. Some opponents suggest that private for-profit facilities believe that since they pay taxes they bear no responsibility to provide care for those unable to pay.

PROFILE OF PRIVATIZED HOSPITALS IN MISSISSIPPI

Mississippi has 106 hospitals, managed in the following manner:

- forty-four are public,
- twenty-one are private not-for-profit,
- ten are former public hospitals which now operate under lease agreements,
- fourteen are former public hospitals which now operate under management contracts, and
- seventeen are private for-profit facilities.

The ten hospitals under lease agreements have entered into these agreements within the last nine years, with 70% of them having entered into the agreements since 1987. Likewise, 64% of the fourteen hospitals operating under management contracts have entered into these contracts since 1987.

Predominant issues in leasing include indigent care, capital improvements, distribution of the

lessor's assets and liabilities, and level of patient services provided by the lessee. Nine of the ten hospital leases reviewed by PEER made provisions for indigent care. Eight made provisions for capital improvements and all ten made provisions for the lessee to provide a level of operations/service at least equivalent to that provided by the lessor at the time of the lease. Five of the ten governing authorities which leased their hospitals paid legal and/or financial service fees, ranging from $450 to $756,000, for services provided to them during lease negotiations.

SUMMARY OF THE LEASE PROVISIONS OF METHODIST MEDICAL CENTER AND BAPTIST MEMORIAL HOSPITAL - NORTH

PEER reviewed the lease transactions of Methodist Medical Center in Jackson (formerly Hinds General Hospital) in 1990 and of Baptist Memorial Hospital - North in Oxford (formerly Oxford Lafayette Medical Center) in 1989. Both facilities had large caseloads, offered a wide range of patient services, and both their governing authorities cited long-range studies recommending extensive capital improvement in order to remain competitive as a reason for leasing.

Although Hinds County officials contended that PEER's study should have included the transaction concerning North Mississippi Medical Center and that the comparison of Methodist Medical Center and Baptist Memorial Hospital-North was not logical, PEER concluded that the sale of Lee County's interest in North Mississippi Medical Center and the lease of Hinds County's interest in Methodist Medical Center were not comparable transactions.

Leasing of Methodist Medical Center

If Methodist Health Systems fulfills all of the provisions of the lease with the Hinds County Board of Supervisors, the public health and welfare of the citizens of Hinds County may be improved.

Provisions for Hinds General Hospital's assets and liabilities include:

- Hinds General Hospital's long-term debts of $1.2 million are being paid by Methodist Health Systems; however, Hinds County is responsible for paying $5 million in general obligation bonds out of $10.5 million in investments made by Hinds General Hospital prior to leasing.
- Methodist must invest $30 million in capital improvements, which is an 89% increase to the hospital's net property, plant and equipment.
- At the end of Methodist Medical Center's lease, Hinds County must pay 90% of the net book value of all capital improvements to Methodist Health Systems.
- The lease required not less than $4 million of Hinds General's cash to be held in trust, with 10% of annual interest earned to be added to principal and 90% to be used for indigent care. Methodist Health Systems is required to provide the same level of indigent care as had been provided by Hinds General.
- Hinds County may, but is not required to, deposit Methodist Health Systems' installment payments of net operating assets of $3,800,000 into the Hinds County Community Health Foundation for indigent care. Because of the unrestricted nature of the lease language, these funds may be spent for non-health-related purposes.

Final fees, as approved by resolution of the Hinds County Board of Supervisors on November 26, 1990, paid to the legal and financial entities for services were as follows:

Watkins, Ludlam & Stennis	$275,000
Holley & Associates	250,000
Walker & Walker	136,000
Grigsby, Brandford, Powell & Company	75,000
Watkins, Ludlam & Stennis (transactional expense)	20,000
Total	**$756,000**

Leasing of Baptist Memorial Hospital - North

If Baptist Memorial Health Care System fulfills all of the provisions of the lease with the City of Oxford and the Lafayette County Board of Supervisors, the public health and welfare of the citizens of Oxford and Lafayette County may be improved.

Financial provisions of this lease differ from those of the Methodist Medical Center lease:

- Oxford Lafayette Medical Center's long-term debts of over $5 million are to be paid by Baptist Memorial Health Care System.

- Oxford Lafayette Medical Center will receive $13 million in capital improvements, an increase of 125% to its $10,442,011 in net property, plant and equipment. Total construction and repair expenditures will total $16,900,000, including $1.4 million construction of an industrial building and $2.5 million in repairs to the hospital. In addition, Baptist Memorial Health Care System must build an access road to the hospital which will cost approximately $1.25 million.

- At the end of Oxford Lafayette Medical Center's lease, Baptist Memorial Health Care System will surrender the leased premises, including the $7.8 million net working capital leased by Baptist Memorial Health Care System and all capital improvements, to the City of Oxford and Lafayette County.

- Lease provisions of the Oxford Lafayette Medical Center stipulate that Baptist Memorial Health Care System's five annual payments must be deposited into the Oxford/Lafayette Health Foundation to provide for indigent care.

Total fees paid by the Board of Trustees of Oxford Lafayette Medical Center for legal and financial services provided in the leasing of Oxford Lafayette Medical Center were as follows:

Wood, Lucksinger and Epstein	$56,043
Sumners, Hickman and Rayburn	46,422
Total	**$102,465**

Conclusion Regarding Hospital Privatization

Because of limited financial resources, privatization of public hospitals has become an attractive alternative for local entities which are responsible for providing their citizens with adequate health care. In Mississippi, twenty-four public hospitals have privatized within recent years, either through management contracts or lease agreements. Most of these public hospitals have privatized with the hope that the private sector can maintain or improve the level of health care provided while relieving the public sector of ongoing financial support and future capital improvements. In the cases of Methodist Medical Center and Baptist Memorial Hospital-North, privatization should improve the public health and welfare of the citizens served by those institutions if the provisions of the lease transactions are fulfilled.

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A REVIEW OF HOSPITAL PRIVATIZATION IN MISSISSIPPI AND A SUMMARY OF THE LEASE PROVISIONS OF METHODIST MEDICAL CENTER AND BAPTIST MEMORIAL HOSPITAL - NORTH

INTRODUCTION

The level of interaction between the public and private sectors has increased in recent years, with governments considering use of the private sector for more efficient and effective administration of services. From the late 1970's to 1985, 180 of the nation's public hospitals privatized in order to help cope with the fiscal strains of the health care industry. In recent years in Mississippi, twenty-four hospitals have converted from public to private control, either through outright sale, a lease agreement or a management contract.

Authority

At its meeting on May 29, 1990, the PEER Committee, in response to a legislative request, approved a review of the privatization of public hospitals in Mississippi. The Committee acted in accordance with MISS. CODE ANN. Section 5-3-57 (1972).

Scope and Purpose

The original purpose of this review was to determine the status of public hospital privatization within Mississippi and its effects on the availability of care, the delivery of patient services, the efficiency of operations and the financial conditions of hospitals. Preliminary field work identified twenty-four hospitals in Mississippi which have privatized, with many of these having entered into lease agreements. Because privatization is a relatively new public policy in Mississippi, there is a lack of reliable pre- and post-privatization financial and service data. (See **Profile of Privatized Hospitals in Mississippi**, page 9.) As a result of data limitations, PEER modified the purpose of this project.

The modified purpose of the project was to determine why public hospitals enter into lease agreements and whether these lease agreements are uniform. PEER also reviewed and summarized the provisions of two of the privatized hospitals' lease agreements.

Methodology

Relative to PEER's initial purpose of determining the status of public hospital privatization within Mississippi and its effects on the availability of care, the delivery of patient services, the efficiency of operations and the

financial conditions of hospitals, PEER attempted to perform pre- and post-privatization analyses of financial conditions and services offered at Mississippi hospitals. PEER contacted the American Hospital Association, the Mississippi Hospital Association and the Mississippi State Department of Health to obtain quantitative financial and service data on each hospital in Mississippi. The Mississippi Hospital Association could only provide complete financial data for three hospitals. Due to the limited number of cases where privatization has occurred, the service data from the State Department of Health did not provide enough pre- and post-privatization statistical information for PEER to determine reliably the effects of hospital privatization on the availability of care, the delivery of patient services and the efficiency of operations. Regional financial and service data provided by the American Hospital Association could not be used because it did not differentiate between public and private facilities. PEER reviewed current literature to identify the issues and concerns surrounding the privatization of public health facilities.

After redefining the project's purpose to determine why public hospitals enter into lease agreements and whether such lease agreements are uniform, PEER requested information on their reasons for choosing to lease the county's public hospital and on the costs involved in doing so from the boards of supervisors in ten counties having a leased public hospital. PEER analyzed the leases of these ten hospitals regarding the prevailing issues surrounding privatization as identified in the literature. PEER also interviewed the hospital administrators at four hospitals which have entered into management contracts as opposed to lease agreements.

In order to examine more specific concerns (i.e., disbursement of assets/assumption of liabilities and transaction costs) of the lease negotiation process, PEER reviewed the specific lease provisions of two recently leased facilities: Methodist Medical Center in Jackson (formerly Hinds General Hospital) and Baptist Memorial Hospital - North in Oxford (formerly Oxford Lafayette Medical Center). In reviewing these lease transactions, PEER studied lease-related documents (i.e., requests for proposals, board resolutions, long-range studies and legal and/or financial consultants' contracts) and interviewed the following officials:

- County Administrator of Hinds County;

- Chair of former Board of Trustees of Hinds General Hospital;

- Attorney for the Board of Trustees of Oxford Lafayette Medical Center; and,

- Administrator of Oxford Lafayette Medical Center.

Overview

From the late 1970's to 1985, 180 public hospitals in the United States were purchased, leased or managed by for-profit hospital chains. Limited finances are influencing hospitals' decisions to consider privatization. Cuts in federal programs, such as Medicaid and Medicare, are one factor in these limited finances.

Privatization of a public hospital occurs in one of three forms: sale, lease agreement or management contract. Outright sale of the hospital is the most complete form of privatization. Under a lease agreement, the public and the governing board release all control of the health facility to some other entity in return for lease payments. Under a management contract the public continues to own the facility and the board of trustees continues to vote on all decisions of the facility; however, the management team under contract operates the facility under the established policies of the board.

Mississippi has 106 hospitals, managed in the following manner:

- forty-four are public,
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- seventeen are private for-profit facilities.

The ten hospitals under lease agreements have entered into these agreements within the last nine years, with 70% of them having entered into the agreements since 1987. Likewise, 64% of the fourteen hospitals operating under management contracts have entered into these contracts since 1987.

Predominant issues in leasing include indigent care, capital improvements, distribution of the lessor's assets and liabilities, and the level of patient services provided by the lessee. Nine of the ten hospital leases reviewed by PEER made provisions for indigent care. Eight made provisions for capital improvements and all ten made provisions for the lessee to provide a level of operations/service at least equivalent to that provided by the lessor at the time of the lease. Five of the ten governing authorities which leased their hospitals paid legal and/or financial service fees, ranging from $450 to $756,000, for services provided to them during lease negotiations.

PEER also reviewed and summarized the lease transactions of Methodist Medical Center (formerly Hinds General Hospital) in 1990 and Baptist Memorial Hospital - North (formerly Oxford Lafayette Medical Center) in 1989. Both facilities had large caseloads, offered a wide range of patient services, and both their governing authorities cited long-range studies recommending extensive capital improvement in order to remain competitive as a reason for leasing. If provisions of both leases are fulfilled by the lessees, the public health and welfare of the citizens of Lafayette and Hinds counties may be improved.

BACKGROUND

National Trend of Privatization

Governments have long relied on the private sector to provide some public services. The level of interaction between the public and private sectors has increased in recent years, with governments considering use of the private sector for more efficient and effective administration. More states are beginning to experiment with the private sector, with several states privatizing their correctional systems. Local governments utilize the private sector to provide services such as solid waste collection, fire protection, park maintenance and ambulance services.

Most counties and cities have publicly owned hospitals, which represent about thirty percent of the nation's acute care hospitals. These hospitals are generally funded from the revenue they receive through charges for the health care services provided. Local government has financed any difference in the past between the revenues and the costs to operate the hospital. In 1988, however, barely one-third of the public hospitals in America were able to cover their operating costs and the average public hospital had an operating deficit of approximately $8 million. Unable to operate under such financial strain, many public hospitals have either closed or privatized. From the late 1970's to 1985, 180 public hospitals in the United States were purchased, leased or managed by for-profit hospital chains.

Forms of Privatization

Privatization of a public hospital occurs in one of three forms:

- sale,
- lease agreement, or
- management contract.

Each form offers its own benefits. Of the three, *outright sale* of the hospital is the most complete form of privatization. A public entity sells the facility in return for a specified amount of money, and in doing so relinquishes all claims to ownership of the facility.

Lease agreements are a less complete form of privatization. When entering a lease agreement, the public and the governing board release all control of the health facility to some other entity in return for lease payments. This leasing entity operates the facility under its own policies and guidelines. The board no longer has any input into the operation of the

health facility. According to the Mississippi Hospital Association, ten hospitals in Mississippi operate under lease agreements.

Management contracts are the least radical form of privatization for a public hospital. When entering into a management contract the public continues to own the facility and the board of trustees continues to vote on all decisions of the facility; however, the management team under contract operates the facility under the established policies of the board. The contracting entity usually has services available to the board such as access to consultants and group purchasing plans. Fourteen Mississippi hospitals currently operate under management contracts.

Issues and Concerns Related to Hospital Privatization

To identify the issues and trends prevalent in today's health care arena, specifically those relative to privatization, PEER reviewed current literature of the health care industry. Limited finances are influencing hospitals' decisions to consider privatization. Cuts in federal programs, such as Medicare and Medicaid, are one factor in these limited finances. Indigent care is a constant and predominant factor in the health care arena and is a particular concern of the opponents of privatization.

Financial Concerns

Public hospitals often consider privatization for economic reasons. Medicare's shift to a prospective payment system with standard (fixed) reimbursement for classified diagnoses, coupled with increased pressure on federal and state budgets, has led to restrictive reimbursement to health care providers from these programs. Inpatient care (total care provided within the facility) levels and associated revenues are declining due to several factors, including shifts to ambulatory care. The rapid modernization of medical technological equipment strains hospital budgets, and needs for capital improvement programs increase as infrastructure deteriorates. Factors such as these result in reduced operating margins for hospitals.

Indigent Care

Indigent care is a concern of the health care industry which becomes even more predominant when considering the privatization of health care facilities. The public often fears that hospitals not under public management will give preference to "paying patients" as opposed to those patients unable to pay. The federal government, through acts such as the Consolidated Omnibus Budget Reconciliation Act and the Hill-Burton Act,

has taken steps to insure indigent health care at any health facility, privatized or public, which receives federal funds.

The Consolidated Omnibus Budget Reconciliation Act (42 U.S.C. 1395dd), commonly referred to as COBRA, provides that if either an emergency medical condition or active childbirth is present in any patient entering a Medicare and/or Medicaid provider hospital, the hospital must provide appropriate services and care, as facilities allow. The emergency department must provide treatment, within the capabilities of the staff and facilities of the hospital, or provide further examination as is necessary to stabilize the medical condition or provide treatment of the active labor of the patient. This care must be provided until the patient is stabilized, the active labor is treated, the patient is admitted to the hospital, or the patient is discharged following the completion of all medically necessary treatment. An emergency medical condition is defined as a medical condition manifesting itself by acute symptoms of sufficient severity (including severe pain) such that the absence of immediate medical attention could reasonably be expected to result in placing the patient's health in serious jeopardy, serious impairment to bodily functions, or serious dysfunction of any bodily organ or part. A hospital's failure to comply with COBRA's guidelines provides grounds for termination of the hospital's provider agreement and for suspension of the Medicare qualification of any violating physician for a period of up to five years.

Hill-Burton hospitals also have a responsibility to provide indigent care. The Public Health Service Act of 1946 (otherwise known as the Hill-Burton Act) provides grants, loans and loan guarantees to subsidize construction of nonprofit and public health facilities. In return for such grants and loans the hospital must provide free care to indigents in accordance with the amount of funds received. As of April 1, 1991, thirty-two of Mississippi's 106 hospitals had remaining Hill-Burton obligations.

Supporting and Opposing Arguments

In reviewing the literature on privatization of public hospitals, no substantial research conclusively supports or refutes the benefits of hospital privatization. For the purposes of this review the literature was of minimal assistance, because: first, PEER's review focused on pre- and post-privatization statistics and few such statistics were available; and second, more public facilities in Mississippi have entered into management contracts or leases with outside firms than have become completely privatized. Essentially no literature quantitatively contrasts contract management and county/public management of hospitals.

Supporters of privatization generally claim that privatized health facilities operate in a more efficient manner because of centralized management, purchase discounts and other economic opportunities available to them due to the size of for-profit hospital chains. Supporters

also argue that private for-profit facilities have the resources available to invest in new equipment and/or technology and improved facilities, resources which many counties simply do not have. Better equipment and facilities contribute to the effort of providing quality services. Another argument presented by supporters of privatization is that it removes "politics" from the management of hospitals. Hospital boards and county boards of supervisors are the governing bodies of public hospitals, and both are subject to political pressures from various interest groups.

Opponents of privatization argue that privately held facilities engage in what is referred to as "creaming," in which hospitals allegedly make a conscious effort to deal only with patients viewed as desirable or otherwise have the financial resources or insurance to cover medical expenses. Some opponents suggest that private for-profit facilities believe that since they pay taxes they bear no responsibility to provide care for those unable to pay. They believe that their tax dollars are utilized to support public not-for-profit facilities who provide care to indigents, therefore the private for-profit facilities should not be expected to provide this care. However, this is likely to be the exception rather than the rule; even in cases where the medical facility is sold outright, the conditions of transfer usually include an indigent care clause.

While both supporting and opposing positions are presented in literature regarding privatization, PEER found little quantitative evidence to support either position.

PROFILE OF PRIVATIZED HOSPITALS IN MISSISSIPPI

According to information supplied by the Mississippi Hospital Association, Mississippi has 106 hospitals, managed in the following manner:

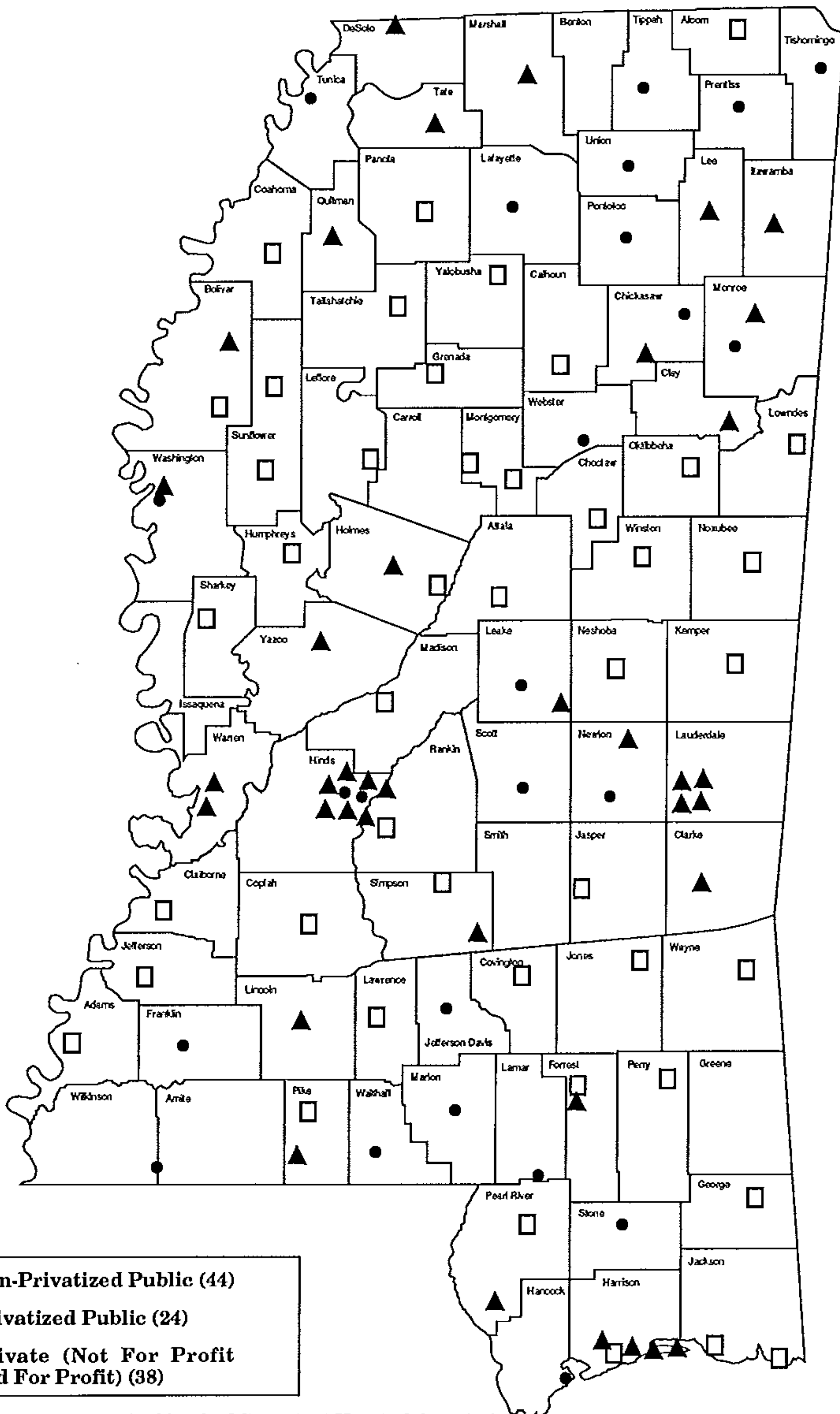
- forty-four are public,
- twenty-one are private not-for-profit,
- ten are former public hospitals which now operate under lease agreements,
- fourteen are former public hospitals which now operate under management contracts, and
- seventeen are private for-profit facilities.

Exhibit 1, page 10, depicts the location of hospitals by type of facility. Appendix A, page 25, lists Mississippi health facilities by type of ownership or management.

PEER contacted the Vice Chancellor for Health Affairs of the University Medical Center and board chairpersons of three hospitals in Mississippi which have entered into management contracts to inquire as to reasoning for selecting the management contract option. Each institution is unique and has distinct reasons for selecting the management contract option but furnished only anecdotal or contractor-developed economic data showing the effects of the decision. The predominant reason given for entering a management contract as opposed to a lease agreement was to enable the board of supervisors and/or the board of trustees to retain some degree of authority in hospital decisions. Hospitals often obtain access to consultants and purchasing discounts when entering a management contract.

The ten hospitals under lease agreements have entered into these agreements within the last nine years, with 70% of them having entered into the agreements since 1987. Likewise, 64% of the fourteen hospitals operating under management contracts have entered into these contracts since 1987 (see Exhibit 2, page 11). Since most hospitals which have privatized have done so fairly recently, statistical data does not exist to document whether these leases have been beneficial.

EXHIBIT 1
MISSISSIPPI HOSPITALS BY TYPE OF MANAGEMENT
(AS OF JANUARY 1, 1991)



□ Non-Privatized Public (44)

● Privatized Public (24)

▲ Private (Not For Profit and For Profit) (38)

SOURCE: Information Supplied by the Mississippi Hospital Association

EXHIBIT 2
TRENDS IN PUBLIC HOSPITAL MANAGEMENT
(1981-JANUARY 1, 1991)

■ **Public Hospitals Which Have Leased Within the Past Ten Years (10)**

● **Public Hospitals Which Have Entered Management Contracts Within the Past Ten Years (14)**

□ **Remaining Public Hospitals (44)**

SOURCE: Information Supplied by the Mississippi Hospital Association

Legislative History of Public Hospital Leasing in Mississippi

Chapter 395, Laws of 1982, established a uniform law governing the operation and disposition of public health care facilities operated by counties and municipalities. One feature of this act was to repeal prior law governing the lease of such public health care facilities to non-profit operators (MISS. CODE ANN. Section 41-13-17 (1972)), and provide that governing authorities of counties or municipalities could lease such facilities to any person, firm, corporation for a term not to exceed fifty years, see Chapter 395, Laws of 1982, Section 2, MISS. CODE ANN. Section 41-13-15(6) (1972). This section further provided that the leased health care facility had to operate on a not-for-profit basis and had to safeguard community health interests.

Laws governing the leasing and transfer of public health care facilities were further amended to provide for greater restriction on leasing in 1985 by Chapter 511, Laws of 1985. This chapter amended MISS. CODE ANN. Section 41-13-15 (1972) to authorize the sale of community hospitals and related facilities including their outstanding obligations, and further provided that if such facilities were leased, proceeds from the lease had to be used to cover any outstanding indebtedness of the leased community hospital. Provisions of prior law allowing leases of up to fifty years were retained. This amendment narrowed the scope of what could be leased from health care facilities to community hospitals and related facilities. Additionally, surplus funds generated through the lease agreement had to be used for health-related functions, and no lease could be entered into without the consent of the board of trustees of the community hospital.

This chapter further provided that if the board of trustees does not consent to the lease within thirty days of the lease agreement's starting date, the owner of the health care facility may publish his intention to lease the facility in a newspaper of general circulation in the county, and if 20% of the qualified electors petition for an election on such lease, an election shall be held. If no petition for election is filed, the owner may enter into the lease for the health facility.

Survey of Hospitals Which Operate Under Lease Agreements

Because governing authorities characteristically retain final decisionmaking power under management contracts, PEER surveyed those hospitals with the more radical form of hospital privatization, lease agreements, under which governing authorities relinquish all management and operational control while still retaining ownership of the facility. A predominant reason given by those entities choosing to enter into a lease agreement as opposed to a management contract was that it "took the board of supervisors out of the hospital business."

PEER reviewed the lease agreements of the ten formerly public hospitals (see Exhibit 3, page 14). One common stipulation of the leases was that the lessee recruit additional physicians to the community. The length of leases varied from five years to fifty years. Annual rental fees varied from $1/year to $10/year.

After interviewing the appropriate boards of supervisors and reviewing current literature of the health care industry, PEER identified specific issues and lease components and surveyed the ten county hospitals operating under lease agreements regarding:

- reasons for leasing;
- provisions for indigent care;
- requirements for capital improvements;
- level of patient services; and
- transaction costs.

The following paragraphs summarize PEER's analysis of the hospitals' lease agreements and the responses of the respective boards of supervisors.

Reasons for Leasing--County boards of supervisors which have leased their county's hospital cited financial burdens as a prevailing reason for entering into lease agreements. The cost of running and operating a hospital has become so great that many governmental units do not have the resources for capital necessary to continue operations. Several boards cited instances in which the county's financial capability was unable to support large capital improvement projects necessary to upgrade the facility's equipment, facilities and operations. Lease agreements offer the county the opportunity to gain such capital improvements at no additional costs to the county's taxpayers. Tishomingo, Lafayette, Hinds and Union counties cited needs for such capital improvement projects.

Various factors contribute to publicly owned hospitals' financial hardships. Tishomingo County cited a decreasing occupancy rate as a result of cuts in private and federal insurance programs such as Medicare and Medicaid. Voters in Leake County rejected a proposal to increase taxes to support the hospital there as a county-operated facility. The Pontotoc County Board of Supervisors faced a $500,000 hospital debt and considered a lease agreement to be the most feasible and beneficial option. Tunica County's increasing hospital operating deficit, coupled with the county's low tax base, prohibited the funding and operation of the small rural hospital, and consequently, the hospital closed January 2, 1991.

EXHIBIT 3

LEASE COMPARISON OF TEN PRIVATIZED PUBLIC HOSPITALS

LESSOR	LESSEE *	CURRENT NAME OF HOSPITAL	YEAR LEASED	TRANSACTION FEES	REQUIREMENTS OF LEASE: PROVISIONS FOR INDIGENT CARE	CAPITAL IMPROVEMENTS	LEVEL OF PATIENT SERVICES
Newton County	Rush Health Systems	Rush Hospital	1982	$0	Satisfy Hill-Burton	$750,000	Equivalent to Lessor
Prentiss County	Baptist Memorial Health Care System	Baptist Memorial Hospital (Booneville)	1982	$0	Provide emergency care to satisfy law	$5,100,000	Equivalent to Lessor
Stone County	Wesley Health Systems	Methodist Hospital of Stone County	1985	$0	County health foundation	As Lessee deems prudent	Equivalent to Lessor
Tishomingo County	North Mississippi Medical Center	Iuka Hospital and Nursing Facility	1987	$0	Did not address	30 days notice to Lessor	Equivalent to Lessor
Pontotoc County	North Mississippi Medical Center	Pontotoc Health Services	1987	$0	County health foundation	None Specified	Equivalent to Lessor
City of Oxford/ Lafayette County	Baptist Memorial Health Care System	Baptist Memorial Hospital North (Oxford)	1989	$102,465	County health foundation	$16,900,000	Equivalent to Lessor
Tunica County	Med-Care Associates	Tunica County Hospital	1989	$28,533	Satisfy Hill-Burton	None Specified	Equivalent to Lessor
Union County	Baptist Memorial Health Care System	Baptist Memorial Hospital (Union County)	1989	$10,000	County health foundation	$11,000,000	Equivalent to Lessor
Leake County	Independent Healthcare Management	Leake Memorial Hospital	1990	$450	Satisfy Hill-Burton	$250,000	Equivalent to Lessor
Hinds County	Methodist Health Systems	Methodist Medical Center	1990	$756,000	County health foundation	$30,000,000	Equivalent to Lessor

* Private Non-Profit

SOURCE: PEER Staff analysis of ten privatized public hospitals' leases

Provisions for Indigent Care--Nine of the ten hospital leases made provisions for indigent care. Five of the leases called for county health foundations to be set up to invest funds in a fiscally prudent manner, with a percentage of the earnings to be made available for treatment of indigents. Three of the remaining leases specified that the lessee provide services sufficient to satisfy the lessor's unfulfilled Hill-Burton obligation.

Requirements for Capital Improvements--Eight of the ten hospital leases made provisions for capital improvements. Six of these eight specified the amount of capital improvements, which ranged from $250,000 to $30,000,000. One of the two remaining leases that addressed capital improvements specified that the lessee could make alterations, additions and improvements to the facility only after thirty days' notice to the lessor. The remaining lease provided that the lessee make such alterations, additions and renovations as deemed prudent.

Level of Patient Services--All ten of the leases made provisions for the lessee to provide a level of operations/services at least equivalent to that provided by the lessor at the time of the lease. None of the leases included accountability measures for insuring equivalent levels of operations/services. Several of the leases made more specific provisions. One provided that for services more readily available at other facilities, the lessee would provide patient transport to specialist physicians or facilities within the service area. Another lease stated that the lessee may not relocate any institutional services offered by the lessor at the time of the lease to any other health care facility owned by the lessee. Finally, one lease provided that the lessor would provide additional medical service in the doctor's office adjacent to the hospital.

Transaction Costs--Five of the ten governing authorities which leased their hospitals did not pay any fees for legal and/or financial services provided to them during lease negotiations. These five authorities all utilized the services of their board attorneys under those attorneys' regular responsibilities. Fees paid by the five remaining governing authorities ranged from $450 to $756,000. Three of these five boards paid their board attorneys and/or their board financial consultants for services.

SUMMARY OF LEASE PROVISIONS OF METHODIST MEDICAL CENTER AND BAPTIST MEMORIAL HOSPITAL - NORTH

PEER reviewed the lease transactions of Methodist Medical Center (formerly Hinds General Hospital) in 1990 and of Baptist Memorial Hospital - North (formerly Oxford Lafayette Medical Center) in 1989. Both facilities had large caseloads, offered a wide range of patient services, and both their governing authorities cited long-range studies recommending extensive capital improvement in order to remain competitive as a reason for leasing. Following is a summary of the two hospitals' lease provisions.

Leasing of Methodist Medical Center

Prior to the decision to lease Hinds General Hospital to Methodist Health Systems, Hinds County commissioned three studies concerning the hospital's future:

- In June 1988, the hospital's board of trustees, at the request of the Hinds County Board of Supervisors, hired FLR Health Resources of Atlanta, Georgia, to conduct a long-range study of the hospital to determine where the hospital should be in five years competitively. The FLR report, released in August 1989, recommended Hinds General Hospital undergo an approximate $30 million expansion program if it intended to remain competitive with area hospitals.

- The board of supervisors commissioned another study in 1989 by Chi Systems of Chicago, Illinois, to determine whether Hinds General Hospital should continue to operate as a county hospital or enter into an agreement with a private firm. The Chi Systems report stated that Hinds General Hospital would not, under county management, be able to compete with area private hospitals or to attract "private" patients needed to subsidize the charity care it provides. The report recommended leasing the hospital to a private, locally formed corporation.

- The board of supervisors commissioned a study by Kaufman, Hall and Associates, Inc., of Northfield, Illinois, to predict how the hospital would fare if it remained public and how it would fare if it were run privately. This report, released in August 1989, concluded that Hinds County would have to subsidize hospital operations by the year 1994 with tax dollars and recommended leasing the facility.

Based upon the recommendations of these three studies, the Hinds County Board of Supervisors voted to lease the hospital at its December 22, 1989, meeting. The board approved a recommendation by the County Administrator and the County Financial Advisor to form a leasing

committee and to hire two legal and two financial consulting firms at its February 26, 1990, meeting. The county issued its request for proposals in April 1990. The county received one proposal and consequently entered into a lease agreement with Methodist Health Systems of Memphis, Tennessee. The hospital began operating as Methodist Medical Center on December 1, 1990.

Distribution of Assets and Liabilities

In addition to provisions for indigent care, patient services and capital improvements, a prevalent concern of lease agreements is the distribution of the lessor's assets and liabilities. PEER reviewed Methodist Medical Center's lease agreement concerning this distribution.

If Methodist Health Systems fulfills all of the provisions of the lease with the Hinds County Board of Supervisors, the public health and welfare of the citizens of Hinds County may be improved.

Exhibit 4, page 18, depicts the lease provisions for the disbursement of Hinds General Hospital's projected total assets. Following are major points of Methodist Medical Center's lease agreement regarding assets and liabilities:

- Hinds General Hospital's long-term debts of $1.2 million are being paid by Methodist Health Systems; however, Hinds County is responsible for paying $5 million in general obligation bonds out of $10.5 million in investments made by Hinds General Hospital prior to leasing.

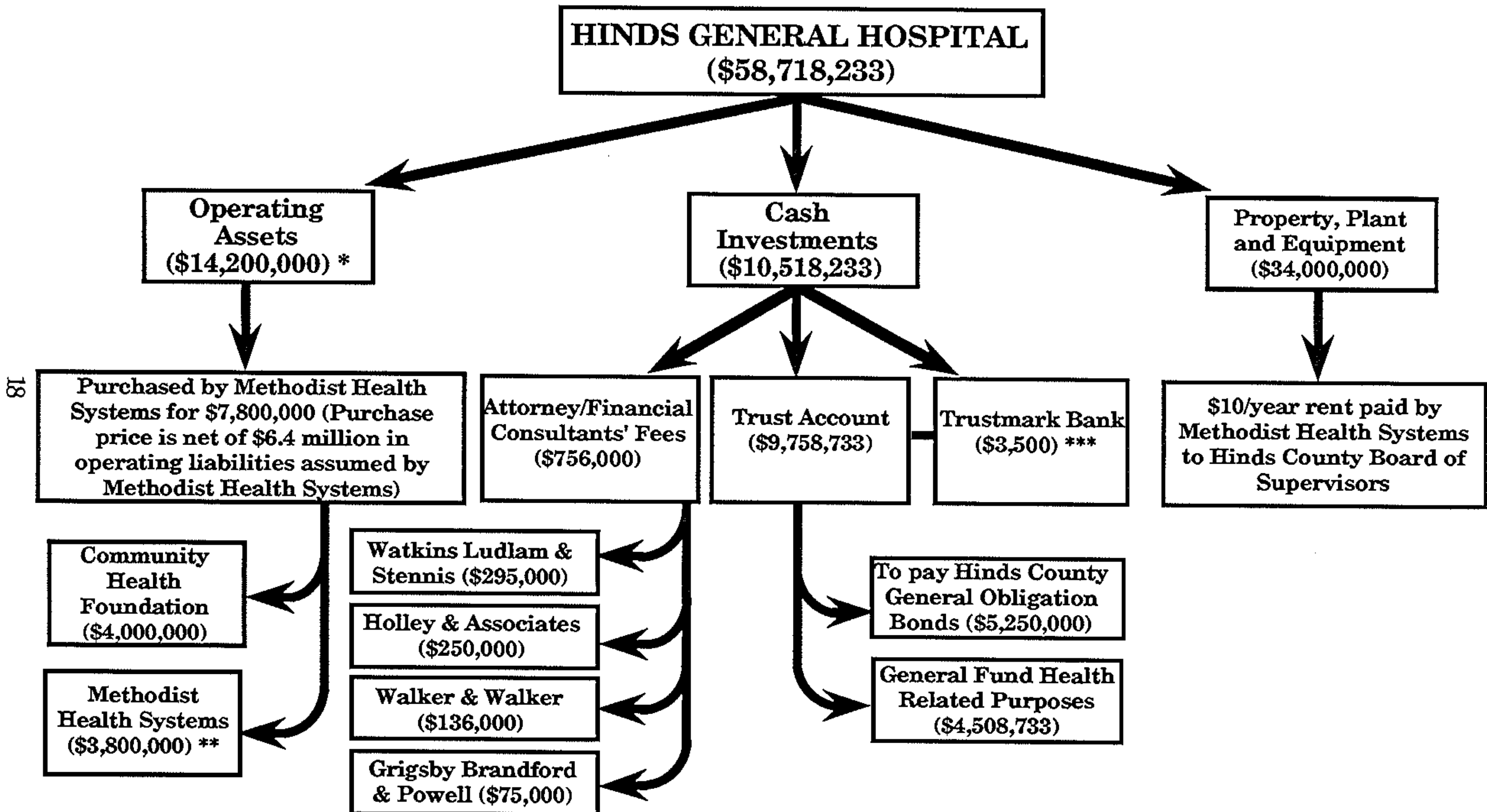
- Methodist must invest $30 million in capital improvements, which is an 89% increase to the hospital's net property, plant and equipment.

- At the end of Methodist Medical Center's lease, Hinds County must pay 90% of the net book value of all capital improvements to Methodist Health Systems. (This payment could be $0 if all improvements have depreciated, or it could be of significance if capital improvements are made toward the end of the lease term. Such capital improvements would be in addition to the $30 million provided for in the lease agreement, which must be completed within eight years.)

- The lease required not less than $4,000,000 of Hinds General's cash to be held in trust. Ten percent (10%) of annual interest earned will be added to principal and ninety percent (90%) is to be used for indigent care by Hinds County Community Health Foundation. If the cost of indigent care exceeds earnings available, Methodist

EXHIBIT 4

LEASE PROVISIONS FOR THE DISBURSEMENT OF HINDS GENERAL HOSPITAL'S PROJECTED TOTAL ASSETS



* Primarily Accounts Receivable and inventory

** Methodist Health Systems will pay the remaining $3,800,000 balance of operating assets to Hinds County in five annual installments

*** Trustmark Bank served as Accounts Manager of the trust account.

SOURCE: Hinds General Hospital Lease Agreement

Health Systems, Inc., is required to provide the same level of indigent care as had been provided by Hinds General Hospital.

- Hinds County *may, but is not required to,* deposit Methodist Health Systems' payments of net operating assets of $3,800,000 into the Hinds County Community Health Foundation to provide for indigent care. Because of the unrestricted nature of the lease language, these funds may be spent for non-health-related purposes.

Transaction Costs and Professional Fees

Final fees, as approved by resolution of the Hinds County Board of Supervisors on November 26, 1990, paid to the legal and financial entities for services were as follows:

Watkins, Ludlam & Stennis	$275,000
Holley & Associates	250,000
Walker & Walker	136,000
Grigsby, Brandford, Powell & Company	75,000
Watkins, Ludlam & Stennis (transactional expense)	20,000
Total	**$756,000**

Payment and Documentation of Fees

MISS. CODE ANN. Section 19-13-23 (1972) provides: *"Any person having a just claim against any county shall first file the same on or before the last day of the month for which such claim may be payable. . .which said claim shall be properly dated and itemized, and shall be accompanied by any evidence of performance or delivery."* Additionally, Section 19-13-29 provides that the county clerk enter all claims into the claims docket: *"The clerk shall mark 'filed' on each such claim, as of the date of presentation of same, and shall audit, number and docket the same consecutively under the heading of each fund in the book of accounts."*

Although the Hinds County Board of Supervisors properly authorized the payment of legal and financial consultant fees through a board resolution, Hinds County did not require the filing and docketing of a claim prior to paying for legal and financial services. PEER reviewed the claims docket and determined that no documentation exists to substantiate that a claim for services was properly placed before the Hinds County Board of Supervisors.

Leasing of Baptist Memorial Hospital - North

Oxford Lafayette Medical Center, now Baptist Memorial Hospital - North, was jointly owned by the City of Oxford and Lafayette County. The hospital's board of trustees employed TriBrook Management Consultants, a nationally recognized health care consulting firm, in January 1987 to review and evaluate services/facilities and to identify/recommend needs of the hospital. In January 1988, TriBrook presented its report to the board of trustees and recommended immediate capital improvements of approximately $11,100,000, exclusive of financing costs, and stated that additional capital improvements would be required in the future.

The Mayor and Board of Aldermen of Oxford and the Board of Supervisors of Lafayette County recognized the needed capital improvements, but were reluctant to place an indebtedness of approximately $11.1 million on the city and the county, which would result in an increased tax burden on the citizens of Oxford and Lafayette County. The board of trustees decided the best way to maintain quality health and medical care to the citizens at the lowest reasonable cost was to enter into a lease agreement. The board employed two attorneys to conduct lease negotiations. The board received five responses to its request for proposals and eventually entered into a lease agreement with Baptist Memorial Health Care Systems. The hospital began operating as Baptist Memorial Hospital - North on June 1, 1989.

Distribution of Assets and Liabilities

PEER reviewed the lease agreement of Baptist Memorial Hospital - North concerning the distribution of assets and liabilities.

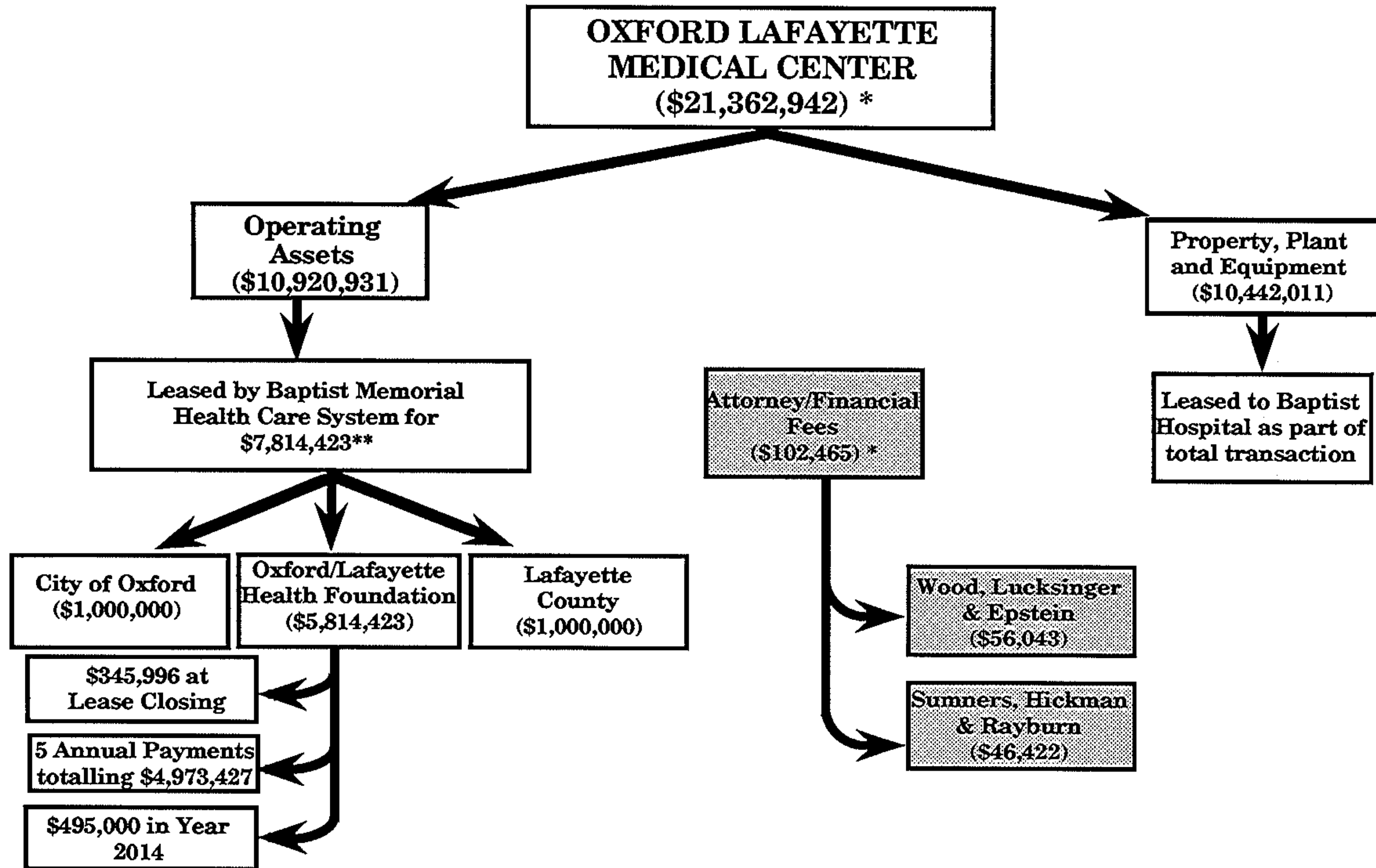
If Baptist Memorial Health Care System fulfills all of the provisions of the lease with the City of Oxford and the Lafayette County Board of Supervisors, quality hospital facilities and health services will be provided to the citizens of Oxford and Lafayette County.

As previously mentioned, distribution of the lessor's assets and liabilities is a prevailing concern of lease agreements. Exhibit 5, page 21, depicts the lease provisions for the disbursement of Oxford Lafayette Medical Center's projected total assets. Financial provisions of this lease differ from those of the Methodist Medical Center lease in the following respects:

- Oxford Lafayette Medical Center's long-term debts of over $5 million are to be paid by Baptist Memorial Health Care System.
- Oxford Lafayette Medical Center will receive $13 million in capital improvements, an increase of 125% to its $10,442,011 in net property, plant and equipment. Total expenditures on construction

EXHIBIT 5

DISBURSEMENT OF OXFORD-LAFAYETTE COUNTY HOSPITAL'S TOTAL ASSETS



* Total assets at lease date were $22,230,055. The $21,362,942 is net of $251,034 (intangible assets) and $616,079 (investments accumulated to pay a portion of the 1984 Bonds assumed by Baptist).

** Lease amount represents net working capital and is the approximate difference between operating (current) assets and liabilities. Baptist assumed the operating liabilities.

[shaded box] These fees were paid out of Oxford Lafayette Medical Center's general fund.

SOURCE: Oxford Lafayette Medical Center Lease Agreement

and repair will total $16,900,000, including $1.4 million construction of an industrial building and $2.5 million in repairs to the hospital. In addition, Baptist Memorial Health Care System must build an access road to the hospital which will cost approximately $1.25 million.

- At the end of Oxford Lafayette Medical Center's lease, Baptist Memorial Health Care System will surrender the leased premises, including the $7.8 million net working capital leased by Baptist Memorial Health Care System and all capital improvements, to the City of Oxford and Lafayette County.

- Lease provisions of the Oxford Lafayette Medical Center stipulate that Baptist Memorial Health Care System's five annual payments must be deposited into the Oxford/Lafayette Health Foundation to provide for indigent care.

Transaction Costs and Professional Fees

Total fees paid by the Board of Trustees of Oxford Lafayette Medical Center for legal and financial services provided in the leasing of Oxford Lafayette Medical Center were as follows:

Wood, Lucksinger and Epstein		$56,043
Sumners, Hickman and Rayburn		46,422
	Total	**$102,465**

Payment and Documentation of Fees

MISS. CODE ANN. 19-13-23 (1972) concerning claims against a county is not applicable to the Baptist Memorial Hospital - North lease. All legal fees were paid by the Board of Trustees of Oxford Lafayette Medical Center out of the hospital's general fund and were not paid by the Lafayette County Board of Supervisors. Although the September 27, 1988, Oxford Lafayette Medical Center Board of Trustees' resolution did not specify that itemized records be kept, the board did require such records and itemization of all billings following its first payment of $6,750.90 to Wood, Lucksinger and Epstein. PEER was provided with itemized accounting records of all fees paid to Sumners, Hickman and Rayburn and to Wood, Lucksinger and Epstein.

Sale of North Mississippi Medical Center

PEER chose to review the lease transactions of Methodist Medical Center and Baptist Memorial Hospital-North due to these facilities' similar caseloads, range of services, studies recommending extensive capital

improvement projects, and lease transaction sizes. During the project's exit conference on April 24, 1991, Hinds County officials contended that PEER should have performed a case study of North Mississippi Medical Center and that PEER's review of Baptist Memorial Hospital-North's and Methodist Medical Center's lease transactions was not logical. In reviewing this report, Sam Cameron, President of the Mississippi Hospital Association, stated that PEER's methodology and analysis were sound and that PEER chose the two most logical hospitals upon which to perform a comparison of lease transactions. PEER reviewed North Mississippi Medical Center's lease transaction and concluded that the sale of Lee County's interest in the hospital and the leasing of Hinds County's interest in Methodist Medical Center were not comparable transactions for four reasons:

- Lee County sold its interest, while Hinds County leased its interest;
- North Mississippi Medical Center Corporation financed its purchase of Lee County's interest through a bond issue, while Methodist Health Systems did not utilize a bond issue;
- Lee County incurred no expenses in selling its interest, while Hinds County incurred expenses of $756,000 in leasing Methodist Medical Center; and,
- Lee County made $11 million in selling its interest in North Mississippi Medical Center, while Hinds County was allowed to keep a portion of its assets when it leased Methodist Medical Center.

(See Appendix B, page 28, for further information on the North Mississippi Medical Center's transaction in comparison to that of Methodist Medical Center.)

Conclusion Regarding Hospital Privatization

Because of limited financial resources, privatization of public hospitals has become an attractive alternative for local entities which are responsible for providing their citizens with adequate health care. In Mississippi, twenty-four public hospitals have privatized within recent years, either through management contracts or lease agreements. Most of these public hospitals have privatized with the hope that the private sector can maintain or improve the level of health care provided while relieving the public sector of ongoing financial support and future capital improvements. In the cases of Methodist Medical Center (formerly Hinds General Hospital) and Baptist Memorial Hospital-North (formerly Oxford/Lafayette Medical Center), privatization should improve the public health and welfare of the citizens served by those institutions if the provisions of the lease transactions are fulfilled.

APPENDIX A

MISSISSIPPI HEALTH FACILITIES BY TYPE OF OWNERSHIP/MANAGEMENT

PUBLIC FACILITIES

CHOCTAW COUNTY MEDICAL CENTER (Ackerman, MS)
SOUTH PANOLA COMMUNITY HOSPITAL (Batesville, MS)
JASPER COUNTY GENERAL HOSPITAL (Bay Springs, MS)
RANKIN MEDICAL CENTER (Brandon, MS)
HUMPHREYS COUNTY MEMORIAL HOSPITAL (Belzoni, MS)
HILLCREST HOSPITAL (Calhoun City, MS)
MADISON GENERAL HOSPITAL (Canton, MS)
TALLAHATCHIE GENERAL HOSPITAL (Charleston, MS)
NORTHWEST MISSISSIPPI REGIONAL MEDICAL CENTER (Clarksdale, MS)
BOLIVAR COUNTY HOSPITAL (Cleveland, MS)
COVINGTON COUNTY HOSPITAL (Collins, MS)
GOLDEN TRIANGLE REGIONAL MEDICAL CENTER (Columbus, MS)
MAGNOLIA HOSPITAL (Corinth, MS)
KEMPER COMMUNITY HOSPITAL (DeKalb, MS)
GREENWOOD LEFLORE HOSPITAL (Greenwood, MS)
GRENADA LAKE MEDICAL CENTER (Grenada, MS)
MEMORIAL HOSPITAL AT GULFPORT (Gulfport, MS)
FORREST GENERAL HOSPITAL (Hattiesburg, MS)
HARDY WILSON MEMORIAL HOSPITAL (Hazlehurst, MS)
SOUTH SUNFLOWER COUNTY HOSPITAL (Indianola, MS)
* HINDS GENERAL HOSPITAL (Jackson, MS)
KILMICHAEL HOSPITAL, INC. (Kilmichael, MS)
MONTFORT JONES MEMORIAL HOSPITAL (Kosciusko, MS)
SOUTH CENTRAL REGIONAL MEDICAL CENTER (Laurel, MS)
WINSTON COUNTY COMMUNITY HOSPITAL (Louisville, MS)
GEORGE COUNTY HOSPITAL (Lucedale, MS)
NOXUBEE GENERAL HOSPITAL (Macon, MS)
SOUTHWEST MISSISSIPPI REGIONAL MEDICAL CENTER (McComb, MS)
SIMPSON GENERAL HOSPITAL (Mendenhall, MS)
LAWRENCE COUNTY HOSPITAL (Monticello, MS)
JEFF DAVIS MEMORIAL HOSPITAL (Natchez, MS)
OCEAN SPRINGS HOSPITAL (Ocean Springs, MS)
SINGING RIVER HOSPITAL (Pascagoula, MS)
NESHOBA COUNTY GENERAL HOSPITAL (Philadelphia, MS)
PEARL RIVER COUNTY HOSPITAL (Poplarville, MS)
CLAIBORNE COUNTY HOSPITAL (Port Gibson, MS)
PERRY COUNTY GENERAL HOSPITAL (Richton, MS)
SHARKEY-ISSAQUENA COMMUNITY HOSPITAL (Rolling Fork, MS)
NORTH SUNFLOWER COUNTY HOSPITAL (Ruleville, MS)
OKTIBBEHA COUNTY HOSPITAL (Starkville, MS)
YALOBUSHA GENERAL HOSPITAL (Water Valley, MS)
WAYNE GENERAL HOSPITAL (Waynesboro, MS)
TYLER-HOLMES MEMORIAL HOSPITAL (Winona, MS)
JEFFERSON COUNTY HOSPITAL (Fayette, MS)
DISTRICT II COMMUNITY HOSPITAL (Durant, MS)

11/15/90

* Leased to Methodist Health Systems on December 1, 1990

SOURCE: Mississippi Hospital Association

NOT FOR PROFIT

GILMORE MEMORIAL HOSPITAL (Amory, MS)
FULTON HOSPITAL (Fulton, MS)
METHODIST HOSPITAL OF HATTIESBURG, INC. (Hattiesburg, MS)
MEMORIAL HOSPITAL AT HOLLY SPRINGS (Holly Springs, MS)
MISSISSIPPI BAPTIST MEDICAL CENTER (Jackson, MS)
MISSISSIPPI METHODIST HOSPITAL AND REHAB CENTER, INC. (Jackson, MS)
ST. DOMINIC-JACKSON MEMORIAL HOSPITAL, INC. (Jackson, MS)
METHODIST HOSPITAL OF MIDDLE MISSISSIPPI (Lexington, MS)
BEACHAM MEMORIAL HOSPITAL (Magnolia, MS)
QUITMAN COUNTY HOSPITAL (Marks, MS)
JEFF ANDERSON REGIONAL MEDICAL CENTER (Meridian, MS)
RILEY MEMORIAL HOSPITAL (Meridian, MS)
RUSH FOUNDATION HOSPITAL (Meridian, MS)
CROSBY MEMORIAL HOSPITAL (Picayune, MS)
H.C. WATKINS MEMORIAL HOSPITAL, INC. (Quitman, MS)
BAPTIST MEMORIAL HOSPITAL - DESOTO (Southaven, MS)
NORTH MISSISSIPPI MEDICAL CENTER (Tupelo, MS)
CLAY COUNTY MEDICAL CENTER (West Point, MS)
KING'S DAUGHTERS HOSPITAL (Brookhaven, MS)
KING'S DAUGHTERS HOSPITAL (Greenville, MS)
KING'S DAUGHTERS HOSPITAL (Yazoo City, MS)

LEASED FACILITIES

BAPTIST MEMORIAL HOSPITAL (Booneville, MS)
LEAKE MEMORIAL HOSPITAL (Carthage, MS)
IUKA HOSPITAL AND NURSING FACILITY (Iuka, MS)
BAPTIST MEMORIAL HOSPITAL - UNION COUNTY (New Albany)
RUSH HOSPITAL/NEWTON - (Newton, MS)
BAPTIST MEMORIAL HOSPITAL - NORTH (Oxford, MS)
PONTOTOC HEALTH SERVICES, INC. (Pontotoc, MS)
TUNICA COUNTY HOSPITAL (Tunica, MS)
METHODIST HOSPITAL OF STONE COUNTY, INC. (Wiggins, MS)

MANAGEMENT CONTRACTS

ABERDEEN-MONROE COUNTY HOSPITAL (Aberdeen, MS)
HANCOCK MEDICAL CENTER (Bay St. Louis, MS)
FIELD MEMORIAL COMMUNITY HOSPITAL (Centreville, MS)
METHODIST HOSPITAL OF MARION COUNTY (Columbia, MS)
WEBSTER GENERAL HOSPITAL (Eupora, MS)
LACKEY MEMORIAL HOSPITAL (Forest, MS)
DELTA REGIONAL MEDICAL CENTER (Greenville, MS)
THE UNIVERSITY OF MISSISSIPPI TEACHING HOSPITAL (Jackson, MS)
LUMBERTON CITIZENS HOSPITAL (Lumberton, MS)
FRANKLIN COUNTY MEMORIAL HOSPITAL (Meadville, MS)
OKOLONA COMMUNITY HOSPITAL (Okolona, MS)
JEFFERSON DAVIS COUNTY HOSPITAL (Prentiss, MS)
TIPPAH COUNTY HOSPITAL (Ripley, MS)
WALTHALL COUNTY GENERAL HOSPITAL (Tylertown, MS)

11/15/90

PROPRIETARY HOSPITALS

BILOXI REGIONAL MEDICAL CENTER (Biloxi, MS)
GULF COAST COMMUNITY HOSPITAL (Biloxi, MS)
CPC SAND HILL HOSPITAL (Gulfport, MS)
GARDEN PARK COMMUNITY HOSPITAL (Gulfport, MS)
HOUSTON COMMUNITY HOSPITAL (Houston, MS)
CHARTER HOSPITAL OF JACKSON (Jackson, MS)
JACKSON RECOVERY CENTER (Jackson, MS)
RIVER OAKS HOSPITAL (Jackson, MS)
WOMAN'S HOSPITAL (Jackson, MS)
THAGGARD HOSPITAL (Madden, MS)
MAGEE GENERAL HOSPITAL (Magee, MS)
LAUREL WOOD CENTER (Meridian, MS)
SENATOBIA COMMUNITY HOSPITAL (Senatobia, MS)
SHELBY COMMUNITY HOSPITAL (Shelby, MS)
LAIRD HOSPITAL, INC. (Union, MS)
PARKVIEW REGIONAL MEDICAL CENTER (Vicksburg, MS)
VICKSBURG MEDICAL CENTER (Vicksburg, MS)

APPENDIX B

A COMPARISON OF LEE COUNTY'S SALE OF NORTH MISSISSIPPI MEDICAL CENTER AND HINDS COUNTY'S LEASING OF HINDS GENERAL HOSPITAL

In their April 24, 1991, exit conference with PEER staff, Hinds County officials contended that PEER staff should have performed a case study of North Mississippi Medical Center in Tupelo instead of Baptist Memorial Hospital-North because the transactions involving North Mississippi Medical Center and Methodist Medical Center were much more comparable. Hinds County officials insisted that transaction fees in Tupelo totalled near $1.2 million. PEER reviewed the North Mississippi Medical Center transaction and concluded that the sale of North Mississippi Medical Center in 1987 and the leasing of Methodist Medical Center in 1990 are not comparable transactions.

Overview

The 1987 transaction involving North Mississippi Medical Center and the 1990 transaction involving Methodist Medical Center differed in four distinct ways:

North Mississippi Medical Center	Methodist Medical Center
• Purchased	• Leased
• Bonds Issued ($75 million)	• No Bonds Issued
• Cost to County = $0	• Cost to County = $756,000
• Money Made by County ($11 M)	• County Allowed to Keep Part of Its Investments

History of North Mississippi Medical Center

North Mississippi Medical Center began operations as North Mississippi Community Hospital in 1936 as a private, not-for-profit facility. Lee County officials wished to contribute funds to an expansion project at the facility in 1959, but state law prohibited a governmental entity from contributing funds to a private entity. The hospital corporation and Lee County entered into a lease agreement. The corporation transferred the title to the hospital property and facility to Lee County, enabling the county to contribute funds to the expansion project. The corporation then leased the property and facility from the county for $1/year. North Mississippi Community Hospital became North Mississippi Medical Center in 1965-66 under the management of a 150-member hospital corporation. By the end of the 1970's, Lee County had

invested approximately $4 million in North Mississippi Medical Center and the original forty-year lease agreement had been extended several times.

North Mississippi Medical Center recognized the need in the late 1980's for a major capital improvements project to be funded through a bond issue. Lee County officials did not want to be associated with a substantial bond issue. The hospital corporation offered to buy the county's interest in North Mississippi Medical Center. The corporation paid the county approximately $11 million for its interest: $5 million in cash and $6 million in an annuity to raise $20 million over twenty-five years.

Conclusions

Lee County sold its interest in North Mississippi Medical Center. Hinds County leased its interest in Hinds General Hospital.

As previously stated in this report, a public entity relinquishes all claims to ownership of a facility when it sells such facility. When entering a lease agreement, a public entity relinquishes control of the facility; however, the public entity still owns the facility. Lee County relinquished its total interest in the ownership of North Mississippi Medical Center to the North Mississippi Medical Center Corporation when it accepted the $11 million. Hinds County relinquished its interest in the management of Hinds General Hospital when it entered the lease agreement with Methodist Health Systems; however, the county stills owns the hospital property and facility.

The 1987 sale of Lee County's interest in North Mississippi Medical Center involved a bond issue. The 1990 leasing of Hinds General Hospital did not involve a bond issue.

North Mississippi Medical Center Corporation financed the purchase of Lee County's interest in North Mississippi Medical Center through a bond issue underwritten by the Mississippi Hospital Equipment and Facility Authority. (Lee County had no involvement or expense in the bond issue.) The aggregate principal amount of the authority's revenue bonds totalled $75,235,000. The hospital corporation paid approximately $11 million of this revenue to Lee County for its investments into North Mississippi Medical Center. The remaining $64 million in bond revenue, among other things, financed capital improvement projects at North Mississippi Medical Center, retired Lee County revenue bonds, retired a loan assumed by North Mississippi Medical Center to finance the cost and construction of the Women's Health Center, retired Clay County Medical Corporation revenue bonds and established a cost of issuance fund to pay for costs associated with the 1987 bond issue.

The leasing of Hinds General Hospital by Methodist Health Systems did not involve a bond issue. The lease agreement between Hinds County and Methodist Health Systems provided that Hinds County general obligation bonds totalling $5,250,000 be retired from Hinds County investments which

were placed in a trust account. Hinds County funds, not Methodist Health System funds, retired the bonds.

Lee County did not incur any expenses to the county in selling its interest in North Mississippi Medical Center. Hinds County incurred an expense of $756,000 to lease Hinds General Hospital.

All expenses incurred in the sale of Lee County's interest in North Mississippi Medical Center to the hospital corporation were paid from the cost of issuance fund established in the bond issue or by North Mississippi Medical Center. North Mississippi Medical Center personnel provided documentation of approximately $413,865 paid out of the cost of issuance fund to cover such expenses as bond counsel fees, rating reviews and printing. North Mississippi Medical Center paid $90,265 out of its general fund for a feasibility study of the bond issue. The underwriters' commission of the bond issue totalled $1,096,926 and was not paid out of the cost of issuance fund, but rather directly out of the bond issue.

Hinds County paid $756,000 for legal and financial consultant's services employed to negotiate the leasing of Hinds General Hospital.

North Mississippi Medical Center Corporation paid Lee County $11 million for its interest in North Mississippi Medical Center. Methodist Health Systems allowed Hinds County to retain some investments when it leased Hinds General Hospital.

The North Mississippi Medical Center Corporation paid Lee County $11 million for its interest in North Mississippi Medical Center. The county received $5 million in cash and a $6 million annuity which will pay $20 million over twenty-five years. In addition, the North Mississippi Medical Center bond issue retired approximately $21 million in Lee County revenue bonds.

Methodist Health Systems assumed all of Hinds General Hospital's assets and liabilities. Methodist Health Systems disbursed these assets into various accounts to provide for indigent care and rental payments. Hinds County did not earn any money from the lease. The lease simply allowed the county to retain a portion of its assets and investments. Hinds County is responsible for retiring $5 million in general obligation bonds out of $10.5 million in investments made by Hinds General Hospital prior to leasing. Methodist Health Systems did not retire the general obligation bonds. Methodist Health Systems must pay Hinds County $10/year for fifty years for rental of the hospital property, plant and equipment valued at $34 million.

The University of Mississippi

Faculty
Law Center
University, MS 38677
(601) 232-7361

September 23, 1991

Ms. Kelly Lockhart
Mississippi State Legislature
PEER COMMITTEE
P. O. Box 1204
Jackson, MS 39205

Response to PEER COMMITTEE Report regarding transfer of Oxford-Lafayette Hospital

Dear Ms. Lockhart:

I have carefully read the report regarding transfer of the Oxford-Lafayette Hospital to Baptist Healthcare.

Regarding our transaction only I find no substantial errors in the report. We were very careful and deliberate in our actions and the result was the consummation of an extremely complex agreement which will greatly benefit the people of Oxford and north Mississippi.

Thank you for the report.

Sincerely,

D. Michael Featherstone
President - Board of Trustees
Oxford-Lafayette Cty. Hospital

DMF/cl

BOARD OF SUPERVISORS

"Government of the People"

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District 1
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JERRY A. THOMAS
County Administrator

September 20, 1991

Mr. John W. Turcotte
Executive Director
Joint Committee on Performance
Evaluation and Expenditure Review
P. O. Box 1204
Jackson, Mississippi 39215-1204

Re: Hinds County, Mississippi Response to PEER Committee Report - "A Review of Hospital Privatization in Mississippi"

Dear Mr. Turcotte:

Hinds County expresses its appreciation for the consideration by the PEER Committee of Hinds County's original response to the April draft PEER Committee Staff Study and the changes which are reflected in the final PEER Committee Report. The revised PEER Committee Report more accurately reflects fundamental public policy issues in the privatization of community hospitals. Hinds County was pleased to participate in the review of hospital privatization and the lease of Hinds General Hospital. The County believes that the lease of Hinds General Hospital was a sound decision and in the best interest of long-term health care for Hinds County citizens.

1. Methodist Medical Center Lease. The Hinds General Hospital transaction is by far the largest conveyance of a hospital in the history of Mississippi and was the largest transaction involving the conveyance of a public hospital anywhere in the United States during 1990. It was the conveyance of the largest public hospital in the Southeastern United States since 1984, the year for the advent of the Prospective Payment System. Due to the urban nature of Hinds General Hospital, and the extreme competitive pressures it faced, Hinds County and the Board of Trustees of Hinds General Hospital determined that it would be in the best interest of quality health care to County residents to

lease the Hospital.

2. Privatization Issues. In addition to the predominant issues in leasing identified by the PEER Committee Report as indigent care, capital improvements and level of patient services provided by the lessee, Hinds County also provided in the lease of Hinds General Hospital for the following:

- Continuation of employment and level of benefits for hospital employees
- Payment of outstanding bond debt of Hinds County
- Access to care for obstetrical services to Medicaid beneficiaries
- Utilization of local services and minority contracting
- Minority representation on governing boards
- Assumption of liabilities and contracts
- Reasonable patient charges
- Continuation of Medical Staff and adoption of Medical Staff By-Laws
- Continuation and development of teaching programs at the Hospital

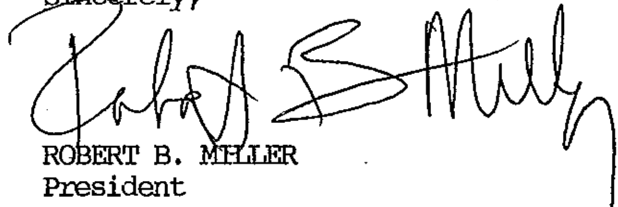
These issues should be considered in negotiating a lease of a public, community hospital.

3. Technical Comments. With respect to specific items in the PEER Committee Report, Hinds County would comment on two statements. First, the Report, incorrectly, states that funds received by the County in installment payments of Net Operating Assets may be spent for non-health-related purposes. State law requires that surplus proceeds from the lease of a community hospital must be used for health related purposes and the lease agreement recognizes this requirement in Section 3.4 of the lease. See Miss. Code Ann. §41-13-15. Second, the Report indicates that although Hinds County properly authorized by Board of Supervisors resolution the payment of transactional fees the County did not require the filing and docketing of claims. Hinds County utilized a trust account, entitled

Hospital Proceeds Trust Fund, held and managed by Trustmark National Bank, as trustee, to accept the funds from the lessee in order to provide for immediate investment of these funds. The Board of Supervisors and the Chancery Clerk of Hinds County issued disbursement instructions to Trustmark National Bank to disburse funds in payment of transactional fees. This method of payment through a trustee is a usual, customary and reasonable method followed in public financings.

In conclusion, Hinds County leased Hinds General Hospital to ensure continued quality health care for County residents. In addition, by leasing the Hospital, the County continues to own the Hospital facilities.

Sincerely,



ROBERT B. MILLER
President
HINDS COUNTY BOARD OF SUPERVISORS

RBM:wd

c - Honorable George S. Smith, Vice President
Honorable Bennie G. Thompson
Honorable Wood Brown
Honorable W. C. Alderman
Mr. Jerry A. Thomas