Challenges and Opportunities Facing Public Hospitals
According to the 2014 American Hospital Association Annual Survey, there are 4,999 community hospitals in the United States. Of these, 2,894 are non-profit, 1,068 are for-profit entities, and 1,037 are considered public hospitals. Public hospitals, owned by state and local governments, play a vital role in the health care safety net for individuals who may not have access to healthcare otherwise.
Public hospitals in the United States began as almshouses that provided charitable healthcare to those colonists who could not afford to pay for the area physician home visits. The earliest known public hospital, founded in 1736 in New York, continues to operate today — Bellevue Hospital. To encourage localities to provide healthcare, federal legislation was introduced in 1946. The Hill-Burton Act provided funding to municipalities to build or expand hospitals with emphasis on making services available to all citizens. Today, these structured healthcare providers can be found in urban, suburban and rural areas across the United States and serve as teaching institutions, provide ambulatory and surgical care along with around-the-clock care for the chronically ill and disabled. As the core provider of these critical services to the American citizenry, the public hospitals face unique challenges and opportunities. This article will discuss select current issues that could create fiscal stress situations including the recent economic recession, public-private partnerships that have recently occurred in order to mitigate fiscal and non-fiscal concerns, and consideration of how the Affordable Care Act is slated to impact these government institutions.

**FISCAL STRESS IN PUBLIC HOSPITALS**

Prior to the 2008 recession, public hospitals were already experiencing fiscal stress. The National Association of Public Hospitals and Health Systems (NAPH) reported the demand for services rose steadily from 2000 to 2009 — for all hospitals. However, the most significant increase was incurred by public hospitals as compared to all other acute care hospitals. During this period of high demand for public hospital services, the American Recovery and Reinvestment Act (ARRA) appropriated more than $2 billion to public hospitals. At the same time, however, the Center for Budget and Policy Priorities reported that at least 27 states cut their health care funding during this time period. The American Hospital Association reports that hospital expenditures account for approximately 33 percent of healthcare costs in the United States. The U.S. Government Accountability Office (GAO) reports that spending on healthcare in hospitals and public welfare now consumes larger shares of state budgets relative to prior decades and economic downturns. Pew Charitable Trusts reported healthcare spending for both state and local governments, excluding federal contributions, accounts for nearly 33 percent of respective budgets in 2012 as compared to approximately 15 percent in 1987. This trend is not expected to reverse. Future projections of healthcare costs for states are projected to reach $700 billion by 2020. Obviously, the prospect of financial stress for government-funded public hospitals operating in the ‘red’ is high. Seventy-three public hospitals have closed or merged since 2006.

A study of 340 community hospitals within the United States conducted by Bazzoli and Andes (1995), reported that a major factor leading to closure of financially distressed hospitals was increased competition in the market. Sherman and Mankovetskiy (2008) replicated these research findings and reported that increased competition from physician-owned ambulatory centers was a factor in hospital closures along with municipal bankruptcies of these political entities. Federal court bankruptcy records indicate 209 municipal bankruptcy filings have occurred since 1994, including 41 filings by hospital and healthcare districts. California’s public hospitals have experienced closings and fiscal stress resulting in 19 municipal bankruptcy filings in the past 20 years, stemming from a variety of issues including low
receipts from Medicare/MediCal based on costs of services, mandated seismic upgrades and competition from private hospitals for staff and services. Most of the hospitals affected/closed in California were smaller hospitals in urban areas of Southern California — an area known for large population of immigrants and uninsured residents.

A recent study of 162 public hospitals reported a lack of focus on both internal and cost controls, quality improvement or services that attract insured patients. Like other government organizations, these entities face issues such as improper payments, fraudulent behavior and political negotiations for funding. Further, workforce shortages, new technologies, increasing demand for care due to aging and chronic conditions, and bad debt/charity costs are all contributing to the declining financial viability of these public institutions. Clearly, these overwhelming financial and competitive pressures negatively impact the fiscal viability of public hospitals.

STRATEGIES TO MAINTAIN FINANCIAL VIABILITY

Based on the results from several studies on public hospitals, the Center for Studying Health System Change identified six key strategies employed by public hospitals to respond to growing capacity as well as financial pressures. These strategies are:

• establishing independent governance structures;
• securing predictable local funding sources;
• securing Medicaid revenues;
• increasing revenue/receivables collections;
• attracting privately insured patients; and
• expanding access to community-based primary care.

These key strategies were found in five large, public hospitals that survived the economic recession added infrastructure and expanded services despite the growing uncompensated care costs and Medicaid caseloads.

Other public hospitals have merged with their private counterparts in order to remain fiscally viable in the healthcare sector. According to Becker’s Hospital Review, there were 94 mergers or acquisitions in the hospital industry in 2012 resulting in $1.88 billion in financial activity. Mergers occur when separate hospitals come together under a shared license and acquisitions occur when joining hospitals retain their separate licenses but are owned by a common governing body. Globally, the concept of public-private partnerships in the healthcare sector has been successful for many countries, and has started to be discussed at the state and local government level. Analysts state that the government partner brings several benefits to the partnership including, but not limited to, the public hospital’s experience with Medicaid/underinsured patients, strong academic affiliations already in place, access to safety-net funds and grants to the private hospital’s management and operational expertise, access to capital, economies of scale and informed advisory or governing boards.

Affordable Care Act

Although it is too early to gauge the impact of the Affordable Healthcare Act in assisting individuals to obtain insurance coverage and needed medical services, public hospitals must be proactive in order to sustain current health care services to the public. The Academy of Health states that new funding streams for public hospitals will be available as a result of the legislation. This funding is estimated to enable health centers to double their current capacity and serve 40 million patients by 2015. Financial incentives will be available to create innovative delivery systems that involve electronic medical records, community-based collaborative care networks, as well as nurse-managed and school-based health centers. Public hospitals will have to do double-duty in order to capitalize on their already-established patient base who should be insured under the legislation as well as attract newly insured groups who have more choices on where to receive healthcare. To accomplish the latter, public hospitals must create another image for their services that attracts the patient because of the quality of care and not the last resort location when faced with healthcare decisions.

The Congressional Budget Office recently forecasted that by 2024, 30 million individuals will still lack insurance despite the reforms implemented by the Affordable Care Act. These individuals are ineligible to participate in the Act for several reasons including:

• non-citizens with immigration status issues;
• citizens who reside in states that did not expand the eligibility criteria; and
• citizens whose incomes do not meet eligibility status for exchanges offered through the Act and also do not qualify for Medicaid coverage.

Public hospitals will still have to meet the needs of these individuals resulting in uncompensated care impacting their financial position.

Conclusion

Public hospitals provide a vital health care service in our communities. A 2005 report on the vitality of public hospitals showed that more public hospitals closed between
17. 23 states have not expanded Medicaid as of this writing.
18. Uncompensated care represents the combined total of unpaid hospital bills and charity care provided to low-income individuals according to hospital industry websites.

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