



**House
Legislative
Analysis
Section**

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MACKINAC STRAITS HOSPITAL AUTHORITY

House Bill 5546 as enrolled
Second Analysis (5-7-90)

Sponsor: Rep. Pat Gagliardi
House Committee: Public Health
Senate Committee: Health Policy

THE APPARENT PROBLEM:

The Mackinac Straits Hospital is owned and operated under a joint municipal hospital authority made up of the City of St. Ignace and the three adjacent townships. Like many small rural hospitals, the Mackinac Straits Hospital has encountered severe financial difficulties in recent years. In order to help keep the hospital going, Mackinac County has entered into a contract with the authority under which the county will pay the authority to provide care to all of the residents in the county. The county proposes to meet its contractual obligations by raising money through a millage increase, but wants some kind of security from the hospital authority. The authority is willing to convey to the county (for no or nominal money) the three buildings used by the hospital (one of which originally was conveyed to the authority by the county), which the county would then rent back to the authority. But under present law, a joint municipal hospital authority may sell, exchange, or transfer any property owned by the hospital board for a nominal amount of money only if the transfer is to a nonprofit corporation as described in the act, and only with voter approval. Otherwise, the hospital board must sell the property at its market value. Legislation has been introduced at the request of the Mackinac County Board of Commissioners that would enable the hospital authority to convey the hospital buildings directly to the county through a board resolution.

THE CONTENT OF THE BILL:

The bill would amend the joint municipal hospital authority act (Public Act 47 of 1945) to allow a hospital authority with fewer than 5,000 members in its jurisdiction to sell, lease, or transfer — for no or a nominal amount of money — real property owned by the hospital board to the county in which it was located.

MCL 331.9

BACKGROUND INFORMATION:

Public Act 47 of 1945 provides for the establishment of "joint municipal hospital authorities," that is, allows two or more cities, villages, or townships to band together to own and operate a hospital. There are ten such authorities in the state, including those located in Holland, North Ottawa, South Haven, Three Rivers, Kalkaska, Coldwater, St. Ignace, and the River District of Detroit.

The law was enacted in response to problems that communities in the 1940s were having in financing hospitals, and these joint municipal hospital authorities generally functioned well for almost forty years, fulfilling community demand for access to health services and operating profitably under the cost-based reimbursement system. Regulatory and economic protections also insulated these hospitals from competitive pressures.

Changes in the health care industry, however, put more pressure on all hospitals to diversify, and put authority hospitals, in particular, at a competitive disadvantage with respect to private and nonprofit hospitals. Authority hospitals, as publicly-owned hospitals, were unable to own corporate stock, operate off-site facilities (such as medical laboratories, nursing homes, or clinics), or engage in economic joint ventures (such as developing homes for the elderly). In response to these problems, the legislature enacted two laws (Public Act 117 of 1987 and Public Act 273 of 1988) which in effect allowed all ten authorities to reorganize into private, nonprofit, tax-exempt corporations, subject to certain conditions (including a prohibition on the sale of transferred assets without voter approval and a requirement that when property is conveyed for a nominal amount of money it be to a nonprofit corporation under the act).

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the bill has no fiscal implications for the state. (4-9-90)

ARGUMENTS:

For:

Mackinac Straits Hospital, like many small rural hospitals, has encountered severe financial difficulties. The county in which the hospital is located would like to help the hospital financially, but also would like some kind of security in return. The county has entered into a contract with the hospital authority, paying the authority to provide medical care for all of the county residents, including indigents. To recover the money paid by the county to the authority, the Mackinac County Board of Commissioners proposes that the hospital authority convey the three buildings used by the hospital (one of which the county originally conveyed to the authority) to the county, which the county then would rent back to the hospital authority. The rent should, eventually, reimburse the county for the money paid to the authority for services to county residents, and if the authority should fail financially, the county would still own the buildings and be able to recoup its losses by their sale. However, under present law, the authority cannot convey the buildings to the county (since the county is not the right kind of entity, namely, a nonprofit corporation), nor can it transfer the property without first holding a public referendum. The county board of commissioners and the hospital board are both in agreement over the transfer, and the bill would give statutory permission for the exchange. The population limit in the bill would further restrict the bill's applicability to the Mackinac Straits Hospital Authority. Finally, since the county would raise money to pay for the service contract with the authority through a millage vote, the whole county (and not just the city of St. Ignace and the three adjacent townships) would have an opportunity to vote on this issue.

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