

RESTRUCTURING A MUNICIPAL HEALTH CORPORATION AS A NONPROFIT CORPORATION

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Senate Bill 644 (reported from House committee without amendment)

Sponsor: Sen. Jim Stamas

House Committee: Health Policy

Senate Committee: Health Policy

Complete to 2-21-16

Analysis available at
<http://www.legislature.mi.gov>

BRIEF SUMMARY: Senate Bill 644 would amend the Municipal Health Facilities Corporations Act (MHFCA) by adjusting the population requirements and extending the deadline for a municipal health facilities corporation to be restructured as a nonprofit corporation.

As passed by the Senate, this bill was identical to House Bill 5138, which was reported out of the Health Policy Committee without amendment on February 2, 2016.

FISCAL IMPACT: Senate Bill 644 could either have a negligible fiscal impact on the state or could increase state costs up to \$1.5 million GF/GP. The Department of Health and Human Services has partnerships with publicly owned or operated hospitals known as Certified Public Expenditures (CPE). The hospitals submit uncompensated care reports to DHHS, who then uses those reports to draw down federal Disproportionate Share Hospital (DSH) payments. Federal CPE DSH funds are then used to offset approximately \$50.0 million GF/GP within the Medicaid program. If therefore, a publicly owned hospital chooses to restructure as a nonprofit corporation, then that hospital's uncompensated care can no longer be counted as CPE. The actual cost is unknown since all other DSH payments and Medicaid payments are counted prior to calculating CPE for each hospital.

The fiscal impact on local units of government is indeterminate as it depends on (1) the amount of funding the local unit provides to (or receives from) a municipal health facility that restructures as a nonprofit corporation and (2) what that local unit chooses to do with those funds.

THE APPARENT PROBLEM: This bill is understood to facilitate a partnership between Alpena Regional Medical Center and MidMichigan Health. Currently, ARMC is a municipal health corporation and MidMichigan is a nonprofit corporation. In order to merge, both have to be on the same corporate plane, which this bill would allow.

THE CONTENT OF THE BILL:

Current law states that a board of trustees or subsidiary board may restructure a corporation as a nonprofit corporation when a corporation or subsidiary corporation (1) is located in a county with a population between 40,000 and 44,000 as of the 2000 census, and (2) the restructuring is completed before July 1, 2012. This ability to restructure is also subject to

any applicable licensing and regulatory requirements, the requirements of the Nonprofit Corporation Act, and the requirements listed elsewhere in Section 305a of the MHFCA. The population requirements in current law apply only to the counties of Gratiot (population 42,285) and Mecosta (40,553), based on their population in the 2000 census, and the current restructuring provisions were put in the act by Public Act 331 of 2010 to allow for the merger of Spectrum Health and Mecosta County Medical Center.

Senate Bill 644 would amend the population numbers to apply to corporations and subsidiary corporations in counties with a population between 26,000 and 30,000 as of the 2010 census. Additionally, the restructuring would need to be completed by June 30, 2017.

MCL 331.1305a

HOUSE COMMITTEE ACTION: The members of the House Health Policy Committee reported out the Senate-passed version of Senate Bill 644 without amendment.

BACKGROUND INFORMATION:

The new population figures in the bill would apply to the following counties, based on their population in the 2010 census: Alpena (population 29,598), Cheboygan (26,152), Dickinson (26,168), Mason (28,705), and Oceana (26,570).¹

The bill is understood to be aimed at facilitating a partnership between Alpena Regional Medical Center and MidMichigan Health. Senate Bill 644 would allow the ARMC board to convert the community-owned hospital into a nonprofit organization, which would be necessary prerequisite to a partnership, as both entities must have the same corporate structure.

The two organizations signed an agreement on January 27, 2016, for ARMC to join the MidMichigan system once this legislation takes effect and ARMC makes the necessary conversion.

(This bill is narrowly tailored for a small range of county populations, and will likely only affect one county, because Article IV, Section 29, of the Michigan Constitution states that the legislature is not to pass local or special acts when "a general act can be made applicable.")

ARGUMENTS:

For:

Increased access to care: Proponents argue that incorporation of ARMC into the MidMichigan Health System will allow citizens in a rural area access to a vast system of doctors and medical care. MidMichigan has more than 5,900 employees, volunteers, and physicians at medical centers in Midland, Alma, Clare, and Gladwin. Doctors in the MidMichigan Health system would be able to provide services at ARMC without getting

¹ 2000 and 2010 Census Data for Michigan. <http://www.michigan.gov/cgi/0,4548,7-158-54534-252541--,00.html>

credentials from an additional hospital, and patients would likewise be able to seek medical services throughout the system with greater ease.

Lower costs: Because MidMichigan is a larger system, rather than paying a premium to order a single machine or piece of equipment, it will be able to order these items in bulk, providing a cost savings to ARMC.

Against:

Local control: Continuation of local control of the county hospital would ensure a greater degree of accountability to the citizens of Alpena, as opposed to control by MidMichigan Health, a corporation which oversees four other medical centers, say critics of the bill.

Additionally, opponents argued that the decision to convert ARMC's corporate classification and to merge with MidMichigan should be handled on a local level, either through a vote by the Alpena County Commissioners or a vote of the people.

Decreased competition: Fewer entities offering health care in a certain region leads to less competition, less choice, and potentially, increased costs, say critics. Because fewer hospitals are competing for patients, they can name their price to health insurers. Also, because ARMC is the main health provider for a broad region composed of 24 zip codes in Alpena, Alcona, Iosco, Montmorency, Oscoda, and Presque Isle counties, patients who already have few choices for health care will have one fewer.

<http://www.health.harvard.edu/blog/everywhere-hospitals-are-merging-but-why-should-you-care-201504017844>

<http://www.consumeraffairs.com/news/hospital-mergers-are-driving-up-costs-researchers-say-082015.html>

POSITIONS:

The Alpena Regional Medical Center supports this bill. (2-16-16)

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.