

CITIZENS LEAGUE
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APPROVED BY
BOARD OF DIRECTORS
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TO: Board of Directors

FROM: Community Information Committee, Greer Lockhart, Chairman

SUBJECT: Next steps toward the implementation of our recommendations about hospitals.

Your committee has spent most of the past year following-up on the 1977 report, "More Care About the Cost in Hospitals." This is, as you know from having seen our proposed statements come to you, at several points during the year, a most difficult policy area. It began with an emphasis on the issue of bed reduction, but, inevitably, it took on the additional dimension of the problem of restraining new dollar investment in the hospital system.

As you will also recall, this committee has been concerned about reliance on the certificate-of-need -- essentially, an administrative regulatory control -- as the only major restraint on the expansion of the system. We have been searching out, and have been examining some alternatives to the certificate-of-need. A number of these -- then under consideration, but not formally recommended -- were listed at the end of the statement which the Citizens League submitted to the Metropolitan Council late last summer.

Over the last several months, your committee has been discussing most intensively the implications of the rapid trend, since about 1975, toward the use of the industrial development revenue bond laws of the state for the financing of hospitals, as a way of securing the advantage of tax-exemption, and therefore lowering interest costs on the bonds. The Minnesota law was specifically amended in 1978 (by Chapter 609) to authorize the use of these industrial development revenue bonds for hospitals and other health care facilities. The question we have been examining is, obviously, whether this practice, which facilitates the flow of capital into the hospital system by removing obstacles, both of an economic and political sort, is basically consistent with public planning and policy determination about the need for additional construction and reconstruction of the area's hospital system.

We do not now urge the Citizens League Board of Directors to recommend repeal of that 1978 amendment to the law; though this is an issue we believe could usefully be discussed in the community, as a part of the growing interest in the potential for a 'market forces' approach to restraining costs in the health care and hospital system. There might be some discussion with the federal government, as well, about the consistency of its effort to restrain expenditure on hospitals, on the one hand; and its encouragement of investment, through the tax-exemption, on the other.

We do, however, now recommend two more modest changes, in the procedures used under that act, for the financing of hospital projects. Specifically:

1. Minnesota law should be changed to provide that industrial development bonds for (and only for) hospital projects be issued, within the Twin Cities area, not solely by a municipality but by, or with the approval of, the Metropolitan Council, on recommendation of the Metropolitan Health Board.

This change would simply create a correspondence between the jurisdiction authorized to issue tax-exempt bonds and the jurisdiction that is, both under state and federal law, responsible for health care and hospital planning. It would also open the way for questions about the financing of a proposed hospital project to be brought more fully into the discussion about its approval; including, perhaps, the possibility that a municipality or group of municipalities seeking a hospital construction or reconstruction might themselves provide funds to cover some portion of the total capital cost.

2. There should be added to the law on industrial development bonds a requirement that, for any such tax-exempt issue, for hospitals, within the Twin Cities area, the section on "bondholder risks" should be prepared by the Metropolitan Health Board, specific to the real, current situation in the community.

At the present time, the section on "bondholder risks" in the typical prospectus, is prepared in general terms. For example, it would raise a caution about "Factors That Could Result in Increased Competition" and would say, for example, "Competition could come from forms of health care delivery that could offer lower-priced services to the same population. These services could be used to substitute for some of the revenue-generating services presently offered by the hospital" Or, it might caution about: "Efforts by insurers and government agencies to limit the cost of hospital services and to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and out-patient care." It would seem appropriate, and in the interests of full disclosure to the prospective buyers of these bonds, to disclose fully and candidly the trends, forces, actions, decisions and policies of both private and public entities in the Twin Cities area that are, in fact, in operation, working to reduce the demand for hospital services; or which are intended to do so in the near future.

These specific suggestions are consistent with the conclusions and recommendations contained in the Citizens League's 1977 report. That report spoke strongly to the concern about the cost in hospitals. It urged a metropolitan approach; and the continued close involvement of the Metropolitan Council in major decisions. It advocated a reduction in the size of the hospital plant -- significantly larger than the one finally adopted by the Metropolitan Health Board. It advocated a temporary hold on investment and reinvestment in the region's hospital system, until decisions about the future size, shape and structure of the system have been agreed-on. It discussed -- without recommending it -- (as your committee now does not) the possibility of public financing of hospital capital expenditure on expansion, modernization and replacement; with borrowings made subject to areawide voter referendum. It concluded that market incentives are preferable to administrative regulation.

Your committee believes the effort to think through a possible 'market-forces' strategy for restraining spending in the hospital system, that would represent a feasible alternative to the use of the certificate-of-need, should now be carried forward by a separate Citizens League task force, specially formed for that purpose. We recommend that such a task force now be authorized. We will, at our next meeting, and as a final step in our handling of the hospitals topic, undertake to draft a possible charge to guide the task force's work, which we will have before the Board at its meeting in March.