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MUNICIPAL HEALTH FACILITY FUND INVESTMENTS

House Bill 5687 (Substitute H-1) First Analysis (5-27-98)

Sponsor: Rep. Tom Alley
Committee: Health Policy

THE APPARENT PROBLEM:

Under current law, municipal health facility corporations "may invest funds in any manner in which a local government unit may then lawfully invest such property" [MCL 331.1304(h)]. The investment options that are allowed under law for local units of government include bank certificates of deposit and/or obligations of the United States.

Typically, these investment vehicles yield very modest returns. Some have argued that while these restrictive legal guidelines serve municipal taxpayers well, they are unnecessarily restrictive for municipal health facility corporations. They argue further that such restrictions should be eliminated, and that municipal health facility corporations should be able to invest in the same ways as their private counterparts and competitors invest.

THE CONTENT OF THE BILL:

The bill would amend the Municipal Health Facilities Corporation Act, which regulates county, city, and village hospitals and health facilities, to remove the restriction on investment options for surplus funds or funds not immediately needed by the corporation. Currently, a municipal health facility corporation is limited to those investment options allowed for local governments.

MCL 331.1304

BACKGROUND INFORMATION:

In 1987, the County Health Facility Act (Public Act 230 of 1987) permitted the reorganization of county hospitals into public nonprofit corporations, allowing them to compete more effectively with private hospitals by providing more flexibility in financial operations and permitting the diversification of operations (such as setting up for-profit subsidiaries,

selling bonds, and engaging in joint ventures). A companion act (Public Act 229 of 1987) amended the Revenue Bond Act to allow county hospitals that reorganized as public nonprofit hospitals to raise money by selling self-liquidating bonds.

In 1989, city hospitals were added to the provisions of the County Health Facilities Act, with the enactment of House Bill 5896 (Public Act 501 of 1988) and House Bill 5897 (Public Act 502 of 1988). Under these acts, city hospitals are allowed to incorporate separately from city government if a vote of the citizens approves their incorporation, yet the hospitals maintain their mandate to serve public health needs. In these reorganization arrangements, the local unit of government is not legally responsible for the financial decisions of the municipal hospital.

This legislation has been proposed by Tolfree Memorial Hospital in West Branch, Michigan. Tolfree Memorial Hospital became a Municipal Health Facility Corporation, giving it many of the operating prerogatives enjoyed by private, not-for-profit hospital corporations while remaining municipally owned, when the voters of the City of West Branch overwhelmingly approved the ballot proposal which allowed the hospital to become a municipal corporation on November 7, 1989. The city council adopted the hospital's articles of incorporation on December 18, 1989, and the hospital became a municipal health facility corporation on January 1, 1990.

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that the bill eliminates restrictions on the investment of surplus and pension-related funds, and it would have an indeterminate impact on local revenues, with the impact depending upon the degree to which the bill changes investment decisions. (5-26-98)

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ARGUMENTS:

For:

As the Michigan Health and Hospital Association has pointed out, with greater investment flexibility, municipal health facilities can enjoy greater growth of their funds and provide increased benefits to their communities while remaining financially stable. Community benefits might include charity care for those patients who cannot pay, as well as services like health screening programs and education. This legislation is good public policy, and will allow the remaining five or six municipal hospital corporations in Michigan to make modern investment decisions.

POSITIONS:

The Michigan Health and Hospital Association supports the bill. (5-26-98)

Tolfree Memorial Hospital of West Branch supports the bill. (5-26-98)

Analyst: J. Hunault

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