

# NAHEFA

National Association  
of Higher Educational  
Facilities Authorities

# NCHFFA

National Council  
of Health Facilities  
Finance Authorities

[www.nahefa.com](http://www.nahefa.com)

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## NAHEFA PRESIDENT'S MESSAGE BY LINDA BEAVER

I hope that all of you had an enjoyable holiday season. Outside my window is a new blanket of powder snow. The snow reminds me of how nature uses the winter months to rest and nourish itself so that in the warm rains and sun of spring everything emerges rejuvenated. So much is happening under that blanket of snow or dormant grass. The same is true of NAHEFA. Though on the surface winter appears to be a quiet, still time – much is happening. The Education Committee is busy working to build an informative spring conference. The Advocacy Committee is working on various legislative matters.

The Wisconsin Authority will once again be a gracious conference host. The spring conference is scheduled for April 25-27 in Kohler, Wisconsin. There are sure to be current topics of interest and other important association business items. I encourage all of you to get involved, participate – this is your association.

## NCHFFA PRESIDENT'S MESSAGE BY DON TEMPLETON

We all want to wish John Van Gorkom well with his recent retirement from his position as the Executive Director of the Washington Health Care Facilities Authority. He served in that position from 1983 to 2006 which was the longest tenured E.D. in the nation.

John was on the NCHFFA board, then moved up to Vice President, then served as President of the organization. He was very active as the Chairman of the Conference Committee for 10 years, Chairman of the Disclosure Committee, member of the Muni Council, and active with MSRB relations.

John is head of the consulting firm VG Strategies, LLC. He helps healthcare providers improve their organizational and clinical performance. John is currently busy helping six healthcare providers, including one in Saudi Arabia.

Neil Moss presented John with a retirement gift of a fly fishing reel and line at the past Denver conference. John is to test this out on the Henry's Fork of the Snake River this upcoming June. Good luck fishing John!

Congratulations go out to Donna Fincke on her appointment as the new Executive Director of the Washington Health Care Facilities Authority. Donna is a board member of the NCHFFA and is the Chair of the Conference Committee. Donna is excited about the upcoming spring conference in Kohler, Wisconsin scheduled for April 25-27, 2007 and has been working with Bob Baccon and his committee preparing the agenda for this conference. Colorado has set a high standard for scenic bus transportation, so Doug Mitchell has his work cut out for him should we need any transportation! Doug sent out a memo encouraging members planning on attending to get in their hotel reservations ASAP as our allotted rooms are being booked up fast.

Neil Moss recently sent out nominations for the five open board positions, and we encourage anyone interested in these positions to notify Neil as we all benefit from members being active in our organization.

Thanks to all who attended, organized and hosted the Denver conference as we had great attendance, had great educational sessions and had a lot of fun!

Hope to see you all in Kohler. The Wisconsin Authority is planning on some fun events that will interest all.

## WASHINGTON ADVOCACY REPORT

Prepared: January 26, 2007

By Charles A. Samuels & Patrick D. Mara  
Mintz Levin/ML Strategies

### Washington Update

In January, the Congress reconvened and Representative Nancy Pelosi (D-CA) became the first female Speaker of the House. House Democrats passed "Six in '06," their six core legislative proposals, in the first 100 hours of the new Congress. The bills stripped back oil and gas tax breaks, lowered interest rates on student loans (see below), attempted to reduce the cost of prescriptions for Medicare beneficiaries (see below), increased funding for government-financed stem cell research, raised the minimum wage and increased cargo inspections.

There are new Members on the Committees of interest to NAHEFA and NCHFFA. This means a number of authorities are newly in position to influence legislation!

As previously reported, at the Senate Finance Committee, the Democrats now have a one seat majority (as they do in the full Senate). Senator Max Baucus (D-MT) takes the Chairman's gavel from Senator Chuck Grassley (R-IA). The only new Republican member is Pat Roberts (R-KS). The Democrats added three new members to their ranks: Senators Debbie Stabenow (D-MI), Maria Cantwell (D-WA) and Ken Salazar (D-CO).

Meanwhile, the House Ways and Means Committee experienced more change. To start, the Democrats now have a 24-17 seat advantage. The Chairman of that Committee during the 109th Congress, Bill Thomas (R-CA), retired. With the change in control of the House of Representatives, Charlie Rangel (D-NY) becomes Chairman. As we have reported, Rangel will be a vastly different Chairman, more sympathetic to charitable healthcare and higher education but vigilant about perceived abuses. Representative Jim McCrery (R-LA) becomes Ranking Member. The new Republican members include Patrick Tiberi (R-OH) and Jon Porter (R-NV). With their new majority in the House, the Democrats were able to add significant membership to the Committee. These new members are: Earl Blumenauer (D-OR), Ron Kind (D-WI), Bill Pascrell (D-NJ), Shelley Berkley (D-NV), Joseph Crowley (D-NY), Kendrick Meek (D-FL), Chris Van Hollen (D-MD), Allyson Schwartz (D-PA) and Artur Davis (D-AL). Ben Cardin (R-MD) successfully ran for Maryland's open Senate seat.

The Senate Health, Education, and Labor Committee saw the following new additions: Barack Obama (D-IL), Bernie Sanders (I-VT), Sherrod Brown (D-OH), Wayne Allard (R-CO) and Tom Coburn (R-OK). Of course, Senator Ted Kennedy (D-MA) is the new Chair, while Senator Mike Enzi (R-WY) becomes Ranking Member.

The House Energy and Commerce Committee, which has jurisdiction over healthcare, transitioned to the Chairmanship of Representative John Dingell (D-MI). Joe Barton (R-TX) is now the Ranking Member. New Democrats on the Committee include: Congresswoman Jane Harman (D-CA), Leonard Boswell (D-IA), Darlene Hooley (D-OR), Anthony Weiner (D-NY), Jim Matheson (D-UT), G.K. Butterfield (D-NC), Charlie Melancon (D-LA) and new Congressman Baron Hill (D-IN). The only new Republican member of this Committee is Dennis Hastert (R-IL) who opted not to remain in the leadership after his party lost control of the House. Hastert chose to take back his seat on Energy and Commerce.

New Democrats on the re-named House Education and Labor Committee are Freshman members Jason Altmire (D-PA), Phil Hare (D-IL), Dave Loebsack (D-IA), John Sarbanes (D-MD), Carol Shea-Porter (D-NH) and John Yarmuth (D-KY). Meanwhile, new Republicans on the Committee include Rob Bishop (R-UT), David Davis (R-TN) and Timothy Walberg (R-MI). George Miller (D-CA) is the new Chair, while Howard "Buck" McKeon (R-CA) is Ranking Member.

### House Votes to Slash Student Loan Rates By 50%

In January, the House approved House Education and Labor Committee Chairman George Miller's (D-CA) H.R. 5, the College Student Relief Act of 2007. The legislation is part of the Democrats' "Six for '06" package of legislative measures. Approved by a vote of 356 to 71, the bill would cut interest rates on need-based student

## WASHINGTON ADVOCACY REPORT (CONT.)

loans in half over the next five years. Miller noted, "With this vote, the House took the first step towards guaranteeing that every student who is qualified to go to college will be able to afford to go." The typical borrower, with an average debt of \$13,800, would save an average of over \$4,400, once the rate cut is fully phased in. The typical graduate leaves college with \$17,500 in federal student debt and the Department of Education estimates that over 200,000 potential students are forced to delay or avoid attending college due to the cost. Moreover, after inflation, tuition prices have risen by 41% since 2001. Miller said of the legislation, "it's the smart thing to do for our country, our economy, and our collective future." There is no new cost to the American taxpayer since the decrease in loan rates is paid for by creating more efficiencies in the student loan program. As of this writing, the Senate has yet to act on a similar bill.

### *Clinton Reintroduces Bill to Make College More Affordable*

Senator and Presidential candidate Hillary Rodham Clinton, a member of the Committee on Health, Education, Labor and Pensions, reintroduced the "Non-Traditional Student Success Act." The legislation increases the maximum Pell grant award to \$12,600 from \$4,050. Clinton stated, "This bill would enable non-traditional students to create a better future for them and provide tax credits to offset the high costs of not just tuition, but such things as books, supplies and even childcare and living expenses." The measure increases the level of college expenses eligible for the Lifetime Learning Credit from 20% to 50%. Through a pilot program, increased financial aid would be provided to those students enrolled less than half time. In addition, authorizations of \$50 million for remedial education and a \$75 million increase for on-campus child care would also be provided.

### *House Approves the Medicare Prescription Drug Bill While President Supports New Hospital Block Grant Program*

By a vote of 255 to 170, the House of Representatives approved H.R. 4, the Medicare Prescription Drug Price Negotiation Act of 2007. The bill, passed in the first 100 hours of the new Congress, is part of the Democrats' "Six for '06" agenda. The legislation requires the Secretary of Health and Human Services to negotiate on behalf of Medicare recipients for lower prescription drug prices. House Speaker Nancy Pelosi stated, "Today's vote is a resounding victory for America's seniors over the special interests." The Secretary of HHS will now be able to negotiate lower prices for approximately 22 million seniors who participate in Medicare prescription drug plans. The Senate has yet to act on a similar measure.

Meanwhile, President Bush proposed in his State of the Union Address the creation of a new block grant program for hospitals by reallocating Medicaid matching funds. Questions have been raised whether this program will affect public hospital debt.

### *Outlook for Tax-Exempt Bonds*

Legislative threats to tax-exempt bonds are expected to be abated somewhat by the Democratic Congressional majority. An exception may be in the charitable arena where there is continued interest in legislation to deal with tax-exempt status abuses, charitable healthcare, and the costs of higher education.

In this context, NCHFFA and NAHEFA will brief the Hill on the value of both bonds and reserves/endorsements in light of Congressional Budget Office and Joint Tax Committee studies alleging arbitrage when hospitals and universities use bonds and reserves. These analyses ignore the valuable and critical separate purposes of those funding sources.

On the positive side, we will renew our project to liberalize bank deductibility to assist small charities. We also will expand our new alliance with Federal Home Loan banks to support legislation enabling these banks to offer letters of credit and other financial support for bond transactions without running afoul of federal guarantee provisions.

## IMPROVING CRITICAL ACCESS HOSPITAL STATUS

Rural hospitals are often 40-50 years old, landlocked within residential areas, and oriented heavily toward inpatient services. Just like any other hospital, critical access facilities still have to focus on efficiency, quality and customer service. Below are eight steps to help critical access hospitals stay on track with sound preparation and planning.

1. **Don't lose sight of your business responsibilities.** Dependency on a high percentage of funding from Medicare and Medicaid means the majority of business in a rural setting is break-even. Gaining critical access status won't change that. Just like any other hospital, you still have to focus on efficiency, quality and customer service. That doesn't go away just because you have cost-based reimbursement.
2. **Carefully assess community needs.** Critical access status requires that a hospital have a keen understanding of the community's most basic needs, especially when they're not being met. Taking stock of gaps in a service area's medical coverage lays the foundation for a hospital leadership team's strategy. Not only will a thorough community assessment help you identify areas that should be addressed in your plan, but it may also reveal opportunities for partnerships with other hospitals.
3. **Be inclusive in your community analysis.** As you try to uncover how best to serve the community, you don't have to go it alone. The nature of the critical access program is to get hospitals to work with rural health clinics and federally qualified health centers, schools and local government, as well as behavioral health providers and emergency services.
4. **Be deliberate with strategic planning.** Once a need is determined, engage in strategic planning to determine how best to meet that need with the community assessment and feedback as your guide. If you make a rash decision to start a program that's not strategically necessary in the long run, the federal government may determine that the program is being abused.
5. **Have a current medical staff development plan.** As soon as the outlines of service expansions begin to appear, hospitals must determine where they stand in terms of manpower to drive those services. You need to know if you have enough physicians who are capable of undertaking what you're planning.
6. **Stay balanced financially.** When critical access status is attained, the opportunities will be many and they'll come all at once. Keep in mind that not all the steps you decide to take will be profitable. As a result, you have to maintain a financial balance. Some services will make more strategic sense than financial, but they shouldn't be dismissed. Balance the services that are bringing in money with ones that aren't.
7. **Educate your staff and your board.** Critical access status brings with it a culture change. Remember your financial and billing office staff will need to be educated to account for new business requirements. Your hospital board will have to learn to think in different terms as well, so don't neglect to spend time in educational sessions with board members even though strategic planning may take center stage on the monthly agenda.
8. **Engage with resource centers.** Aside from turning to other safety net service providers in the community for support, also look to your state's office of rural health. Engaging with them opens doors to resources, grants and workshops, as well as a network of other critical access hospitals facing similar decisions and dilemmas.

Despite the opportunities it offers, gaining critical access status isn't an instant ticket to financial freedom. It is seen as an opportunity for hospitals to catch their breath, focus their attention on community needs and make sure they are headed in the right direction. *(Source: Health Leaders Media; 11/01/06)*

## BRIEFLY NOTED

... Economists deduce that increased healthcare spending reflects the choices of an affluent population and will continue to drive a strong economy. However, healthcare purchasers will tolerate only so much cost growth before they recede. Healthcare is 1/7th of the economy and 1/11th of its job market. If this sector develops a large demand – resource mismatch and becomes financially unstable, the disruptions could cascade to and destabilize other sectors, threatening the national economic security. *(Source: Center for Practical Health Care Reform; 11/09/06)*

... If your staff won the lottery tomorrow, would they show up for work? *(Source: HFMA; January 2007)*

## BRIEFLY NOTED (CONT.)

- ... To help with the emergency preparedness, inflatable hospitals are now available for less than \$500,000. At 2,700 square feet, they include 26 medical/surgery beds, ten triage beds, and four intensive care beds. They can be deployed in 90 minutes. (Source: *Modern Healthcare*; 01/01/07)
- ... In 2005, 118 boys were born in China for every 100 girls. This imbalance is driven by China's one-child policy and a history that considers men superior to women. (Source: *Associated Press*; 01/24/07)
- ... Increased testing to reduce donors with possible risk factors, especially in women donors, threatens the blood supply required to meet our nation's needs. (Source: *The Wall Street Journal*; 01/05/07)
- ... By 2030, our country will need between 5.7 and 6.6 million paid caregivers (currently at 1.9 million) to assist our older population. In addition, today our economy loses \$33 billion annually in lost productivity through unpaid family caregivers who are absent from work. (Source: *AARP Bulletin*; January 2007)
- ... Hedge funds, pension funds and other money managers have invested more than \$9.2 billion in 2006 in disaster related investments, including catastrophe bonds and "sidecars", which allow above average returns if catastrophe losses are low, but risk the loss of their investment if hurricanes or earthquakes trigger massive claims. (Source: *The Wall Street Journal*, 10/21/06)
- ... Trading in life insurance policies held by wealthy seniors has quietly become a big business. Hedge funds, financial institutions including Credit Suisse and Deutsche Bank, and investors such as Warren Buffett are spending billions to buy life insurance policies from the elderly. Other investors are paying seniors to apply for life insurance, lending them money to buy the policies, and then reselling time to speculators. Insurers are worried because they count on many customers canceling their policies before they die, usually because their children grow up and no longer need the financial protection, their pensions kick in or paying premiums becomes too expensive. If far more policies result in payouts, the insurance business becomes much less profitable. Such policies are known as speculator-initiated life insurance or "spin-life" policies. Investors estimate that spin-life policies worth as much as \$13 billion will change hands next year. (Source: *The New York Times*; 12/15/06)
- ... Because of tectonic plate shifting, Los Angeles will become a northern suburb of San Francisco in 50 million years. (Source: *The New York Times*; 01/15/07)
- ... 70 presidents of private colleges earned \$500,000 or more in 2005, a 40% increase from the previous year. Five chief executives surpassed the \$1 million mark. (Source: *The Chronicle of Higher Education*; 11/24/06)
- ... Almost 33% of all college freshmen are attending a school besides their first choice, the highest percent since 1988. Half of these students were accepted at their first choice but did not attend for financial reasons, geography or athletics. (Source: *Associated Press*; 01/19/07)
- ... Credit card statistics include -
  - 1.5 billion credit, debit and gift cards currently in circulation in the U.S.
  - 8.6 credit and debit cards are carried by the typical American cardholder
  - \$16 billion total profits in 2005 for the 10 largest U.S. credit card issuers



"Through an incredibly complex series of transactions, our hospital has just merged with itself."

Source: H&HN; January 2007

## BRIEFLY NOTED (CONT.)

- \$14.8 billion levied on cardholders in late and over-limit penalties
- \$3.5 billion spent for the privilege of using cards with annual fees
- \$9,159 in credit card debt held by the average household as of January 1, 2006
- \$2,966 in credit card debt held by the average household as of December 31, 1990  
(Source: *AARP Bulletin*; January 2007)
- ... February 17, 2009 is the date on which our nation's 1,700 analog television stations will shut down in the changeover to all-digital broadcasting. On that day, 21 million households using conventional sets with rabbit-ears or rusty roof antennas, typically the poor, elderly, or those living in rural America, will turn on their TVs and see.....nothing.  
(Source: *Scientific American*; January 2007)
- ... Wisconsin ranks first, second or third nationwide in the harvesting of no less than 12 different wild animal species by hunters and trappers. (Source: *Milwaukee Magazine*; December 2006)
- ... Skilled workers, such as engineers and doctors, are leaving Germany in record numbers (144,815 in 2005) and fewer immigrants are arriving, causing crucial holes in work forces and threatening the ability of the world's third largest country to compete globally. High taxes, relatively low salaries and inflexible working conditions are among reasons given. (Source: *The Wall Street Journal*; 01/03/07)
- ... The one social factor linked to longer lives in every country studied is education. A few extra years of school is associated with extra years of life and improved health in old age. (Source: *The New York Times*; 01/03/07)
- ... The share of corporate profits in the U.S. collected by state governments via the corporate income tax has fallen sharply in the past quarter century. 67% of corporations filing income tax returns in Wisconsin in 2003 owed the state nothing. (Source: *FRBSF Economic Letter*; 12/08/06)
- ... Money market mutual fund assets have increased to over \$2.3 trillion as short term rates have become more attractive. Single funds now exceed \$100 billion in assets under management. (Source: *The Wall Street Journal*; 12/22/06)
- ... The production of one ton of cement, the paste used to make concrete, creates almost an equal amount of greenhouse gases. That's 1.2 billion tons of carbon dioxide worldwide per annum. Concrete roads and buildings have been linked to "hot city syndrome", a condition in which temperatures keep rising in urban areas. (Source: *Milwaukee Journal Sentinel*; 12/31/06)
- ... There are 11 pages of church listings in the Las Vegas phone book, compared with 116 pages of listings for "adult entertainment". Oh, and 207 pages of listings for lawyers. (Source: *Milwaukee Journal Sentinel*; 12/31/06)
- ... 40% of pro golfers on tour fly exclusively on charter jets within the U.S. (Source: *The Wall Street Journal*; 01/09/07)
- ... Last year the average American spent – 65 days watching television; 41 days listening to the radio; 9.5 days reading books and magazines; 8.1 days on the Internet and 7.3 days reading newspapers. (Source: *Milwaukee Journal Sentinel*; 12/15/06)
- ... In 1900, less than 10% of Americans age 15-18 were enrolled in public high schools, but by 1940 the proportion had grown to about two thirds. (Source: *Scientific American*; January 2007)
- ... Last year, roughly one-third of all deaths in the U.S. were under the care of a hospice program. Although most people prefer to die at home, only 20% do. (Source: *Baltimore Sun Reporter*; 12/03/06)
- ... In the corporate world, long-term planning typically involves a 5 year forecast. In the Indian world, it is longer. Generally speaking, tribes plan for seven generations. That's 140 years. The Seminole Tribe of Florida is buying the Hard Rock business worldwide for \$965 million. This was the first American Indian tribe to get into the gambling business when it opened a bingo hall in 1979. (Source: *Associated Press*; 12/08/06)
- ... Fannie Mae filed a \$2 billion lawsuit against KPMG LLP alleging that negligence on the part of the accounting firm caused it to violate accounting standards and undertake one of the biggest earnings restatements in history. (Source: *The Wall Street Journal*; 12/31/06)

**BRIEFLY NOTED (CONT.)**

- . . . . NASA has plans to send humans back to the moon in 2018. (Source: *National Geographic*; December 2006)
- . . . . Airbus and Boeing both predict that over the next 20 years 22,700 new aircraft costing \$2.6 trillion will be needed to meet demand worldwide. (Source: *BTE Newsletter*; 11/28/06)
- . . . . Nearly four in ten U.S. babies were born outside of marriage in 2005 – a new high. Teen pregnancies fell to the lowest level in 65 years. Increases are in professional, older women and low-income twenty-somethings. (Source: *Newsweek*; 12/04/06)
- . . . . The Gates Foundation said it will spend all its assets within 50 years of the death of its last trustee (Bill – 51 years old, Melinda – 42 years old and Warren Buffett – 76 years old). This decision is important in the debate over whether such foundations should continue forever. (Source: *The Wall Street Journal*; 12/01/06)
- . . . . As little as three hours of exercise per week (brisk walking) increases blood flow to the brain and triggers biochemical changes that increase production of new brain neurons and thereby bolsters memory and intellect. (Source: *The Wall Street Journal*; 11/16/06)
- . . . . Following two years of declines, the number of new international students increased by 8%, suggesting that total foreign enrollment may soon rise. In 2005, 564,766 foreign students were enrolled at American institutions. (Source: *The Chronicle of Higher Education*; 11/17/06)
- . . . . A study from Cornell University indicates that married men students are 75% likelier than single men to finish their graduate degrees quickly – within four years – and 30% likelier to finish within seven years. (Source: *The Chronicle of Higher Education*; 11/17/06)
- . . . . The State Department issued 22,000 visas for incoming foreign children being adopted by U.S. families in 2005. In that same year, 300 U.S. children were adopted by families from abroad. (Source: *Newsweek*; 11/13/06)
- . . . . American men's health is abysmal. They have an average life expectancy of 75.2 years (69.8 years for African American men), compared to 80.4 years for women. Men die of all leading causes of death younger than women except for Alzheimer's disease. (Source: *The New York Times*; 11/14/06)
- . . . . At least 42 of the 119 NCAA's Division A-1 football coaches earned over \$1 million in 2006. Up from just five in 1999. (Source: *USA Today*; 11/16/06)
- . . . . Orlando based Digital Assurance Certification (DAC) has filed a lawsuit against the Municipal Advisory Council of Texas, charging that the Texas MAC's Central Post Office disclosure facility infringes on the patent that DAC recently obtained for its disclosure system. (Source: *The Bond Buyer*; 01/22/07)
- . . . . Demands on reader's time, as well as rapid change in reading habits due to the growth of Internet use, resulted in a 2.8% decline in daily newspaper circulation for the six months ending September 2006. (Source: *Associated Press*; 10/31/06)
- . . . . U.S. mutual funds passed the \$10 trillion mark for the first time in the third quarter of 2006. The ten largest fund managers have a 47% market share. (Source: *Bloomberg News*; 10/25/06)
- . . . . The sooner you fall behind, the more time you'll have to catch up. (Source: *Garrison Kellor*; 01/28/07)

**TAX BREAKS FOR COLLEGE STADIUMS SPARKS SCRUTINY**

Across America, college stadiums are being renovated to attract sports fans and businesses. A controversy has risen from this because some believe that the renovations on stadiums are not geared towards the education of their students. Universities typically finance these renovations by issuing tax-exempt bonds. The revenue that is generated by the bonds goes toward the construction of luxury suites that have features such as 16 seats, catered food, televisions, and high-speed Internet. The suites are generally leased out to certain individuals and businesses that pay anywhere from \$50,000 to \$90,000 per year. An attraction to these buyers is that they are able to deduct most of the lease fee from their taxable income. In 1988, federal law stated that taxpayers may deduct 80% of their payment for the right to purchase seating because it is considered a charitable contribution.

## TAX BREAKS FOR COLLEGE STADIUMS SPARKS SCRUTINY (CONT.)

Many colleges also decide to pay off this debt by selling their stadium naming rights to corporations. These corporations benefit from their purchase because of advertising purposes and they are also able to write this off as a donation or a business expense. As of 1997, federal law states that colleges do not have to pay taxes on any of the money that they receive on naming rights. The University of Maryland has recently spent \$50 million on their stadium and has given their naming rights to Chevy Chase Bank. The bank has agreed to pay \$20 million over the next 25 years for naming rights to the football stadium.

Universities such as the University of Illinois, the University of Texas, and the University of Maryland are all going through renovation through the issuance of bonds. For the University of Illinois, their stadium is getting a \$116 million dollar boost by adding on 48 new luxury suites to Memorial Stadium. Already they have 45 committed purchasers who are willing to pay the price of \$45,000 to \$59,000 a year.

Not only are college stadiums in the debate, but also college athletic departments as well. The National Collegiate Athletic Association (NCAA) is trying to protect its tax-exempt status. The NCAA provides student athletes with almost \$1.5 billion dollars per year in scholarships. Some debaters believe that colleges and universities are abusing the tax policies that are in place. The most recognized sports at the college level are the men's football and basketball programs. There are a total of 117 NCAA Division I-A football programs and they spent a total of \$1 billion dollars alone in 2004-2005, while the 326 Division I men's basketball teams spent about \$789 million.

Critics against this idea believe that the payments that are being received by the individuals should not be tax deductible as a donation. The idea behind all of this is towards intercollegiate sports and not supporting the educational mission those schools should be focusing on as a top priority. Some believe that it should only be allowed if the revenue from the renovations is passed down to the academic level as well. (Sources: *The Wall Street Journal*; 12/27/06 & *The Chronicle of Higher Education*; 11/24/06)

## THE CURRENT STATE OF THE HOSPITAL INDUSTRY AND ITS IMPACT ON STATE FINANCE AUTHORITIES

**By: Mark McIntire, Vice President & Charles Kim, Vice President  
Kaufman, Hall & Associates, Inc.**

### Current State of the Industry

The hospital industry continues to undergo tumultuous change and that change is impacting the size, scope and complexity of providers throughout America. As a result of these changes, providers are generally getting larger with facilities in multiple locations and often in multiple states. The effect of these changes on State Finance Authorities in the past several years has been dramatic and profound.

A stable reimbursement environment and expense controls have contributed to a recent improvement in the financial performance of hospitals nationwide. It has also resulted in a stable ratings environment for not-for-profit healthcare institutions.

Despite the recent improved operating performance and relative stability of the industry, certain fundamental pressures still loom for hospitals. These pressures include: uncertainty surrounding future government reimbursement levels and budget cuts; managed care consolidation's effect on provider pricing leverage leading to declines in commercial rate increases; competition for profitable outpatient services; softer volumes from cost-shifting to patients; nursing and physician shortages; rising uninsured population resulting in increase to bad debt and charity care expenses; significant future capital needs; malpractice insurance; pension funding; and potential increase in acquisitions, mergers and affiliations.

Hospital capital spending has been on the rise over the past few years as a result of several factors. The demand for inpatient hospital services has put severe pressure on Emergency Departments and ICUs. In addition, the industry has had to replace aging facilities and equip them with an ever-increasing array of new technologies. Annual capital spending has been well in excess of annual depreciation expense (upwards of 140% of depreciation). Many hospitals have been unable to meet the demands of capital improvements and major capital additions to keep pace with market demand and/or competitors.

## THE CURRENT STATE OF THE HOSPITAL INDUSTRY AND ITS IMPACT ON STATE FINANCE AUTHORITIES (CONT.)

As a result of these pressures, many hospitals seeking to preserve the local availability of quality health care services have increasingly sought to sell or lease these hospitals to large hospital companies or systems that have greater access to capital and management resources. Nationwide, organizations with the highest credit rating have been the most attractive partners, providing excess capital capacity and the lowest cost of capital to consolidate the market. The result has been a steady increase in the number of stand-alone hospitals becoming part of larger systems.

### *The Role of Traditional Financing Authorities*

In order to understand how these multi-state healthcare providers have brought about change to how providers access capital, it is important to understand the historic context. Since federal law prohibits 501(c)3 tax-exempt hospitals from issuing bonds on their own, traditionally, single state healthcare providers accessed the capital markets through a designated financing authority which could be a state, city, county or specially designated authority established for this purpose. In fact, most states have organized special healthcare financing authorities to streamline the process of helping healthcare entities within their states access the capital markets.

While multi-state providers have seen significant growth, the majority of hospitals in the United States are still free-standing, non-affiliated healthcare providers that simply ask their state or local authority to act as a conduit authority when they want to issue bonds. Most financing authorities have a charter that charges them with financing projects within their state that will ultimately better its citizens. The process is generally organized and efficient. Typically, in exchange for allowing access to the capital markets, these authorities charge a fee to the issuing healthcare entity (aka "obligor") of the bonds in order that the authority can remain a financially self-sustaining entity. Since these authorities virtually never promise to pay bondholders in the case of an obligor default, they really have no liability per-se, so the fees they do receive go to support the on-going efforts of the authority.

Single hospital bond financings have for many years followed the formulaic process as described above; however, the process is more complicated for multi-state health care providers. As discussed earlier, the size and scope of these multi-state health care providers has blossomed in recent years. So too has the complexity of the bond transactions for these entities as they finance projects in multiple states through multiple financing authorities. In prior years, these multi-state providers had to issue bonds through the state(s) in which they planned to spend the bond proceeds. For example, if a multi-state provider wanted to issue \$100 million for two projects in State #1 and State #2, it needed to parallel process both authority applications, meetings, etc. in both states in order to complete the financings at the same time. For larger multi-state providers that wanted to complete projects in multiple states, coordination of authorities became exponentially more difficult with each additional authority that was added.

### *The Advent of Multi-State Issuing Authorities*

In order to remedy the problem of having too many authorities involved in multi-state financings, several state financing authorities have had their charters amended to give them multi-state issuing powers. Essentially, large multi-state health care providers can now issue all of their debt through one of these multi-state authorities so long as they have at least one facility in the authority's state. Currently, there are nine such multi-state authorities (Arizona, Arkansas, Colorado, Florida, Indiana, Kansas, Missouri, South Dakota and Wisconsin).

### *Changing Landscape of Issuing Authorities – The Stakeholders Perspective*

There exist two main stakeholders in the creation of multi versus single state authorities: existing single state issuing authorities and healthcare providers. The above stakeholders have, or should have, an interest in the creation and function of multi-state issuing authorities. The creation of multi-state issuers has engendered competitive tensions between those authorities that have been granted multi-state issuing status and those that have not.

## THE CURRENT STATE OF THE HOSPITAL INDUSTRY AND ITS IMPACT ON STATE FINANCE AUTHORITIES (CONT.)

### Impact on Existing Single State Authorities

The creation of multi-state authorities can be viewed as either opportunity or a threat to existing, single state financing authorities.

Those single state authorities that are not able to compete with more flexible, streamlined multi-state issuing authorities face the risk that they will lose the opportunity to fund hospitals domiciled in their states. Given the streamlined nature of the authority review/approval process, multi-state issuing authorities are largely able to leverage existing resources to process more transactions without incurring significant incremental expense. In so doing, they are able to spread their fixed costs over more transactions and to expand the size of their revenue base. In theory, this allows multi-state authorities to keep the lid on rising costs and obviate the need to raise fees for in-state users.

If issuance trends for 2006 are any indication, there is significant opportunity for multi-state issuing authorities to capture a larger share of the healthcare debt issuance pie. In the first 11 months of 2006, the nine states with multi-state authorities had issued approximately \$7 billion in tax-exempt healthcare debt – a full 25% of all healthcare debt issued in the United States. Of that amount, nearly half, \$3.4 billion was issued on behalf of multi-state health care providers.

The statistic above demonstrates the consolidation of power among those nine issuing authorities that have multi-state issuance capability. Because the volume of bond issuance is largely a zero-sum game in terms of which authority sells the bonds, the growth in bond issuance volume through multi-state authorities has a negative reciprocal impact on single state issuers.

One particular State currently has eight multi-state healthcare providers operating within it. In 2006, six of the eight multi-state healthcare providers issued nearly \$2.7 billion in debt. Interestingly, not one of those healthcare providers chose to issue any of their own debt through the State's single-state issuing authority. Rather, all eight healthcare providers chose to issue their debt through multi-state finance authorities. The two largest examples of this were Ascension Health and Adventist Health who issued approximately \$912 and \$675 million, respectively, in 2006. If this trend continues, it could prove problematic for this State's issuing authority as well as other single state finance authorities, especially if healthcare consolidation by large providers continues.

### Impact on Healthcare Providers

No one benefits more from multi-state issuing authorities than healthcare entities – single and multi-state providers alike. These benefits accrue to healthcare providers in both time and money savings.

- **Reduced Fees:** The best example is the tradeoff between fees and volume discussed earlier in this article. During the first 11 months of 2006 (up to the time of this writing), the Indiana Finance Authority was the largest conduit issuing authority for multi-state healthcare providers in the country. Indiana completed 34% of all multi-state healthcare provider financings in the first 11 months of 2006. Part of its competitive advantage is its relatively low cost structure. For instance, the Indiana Finance Authority would charge approximately \$43,000 to serve as issuing authority for a \$100 million, 30 year bond issuance, including up-front and on-going costs. Indiana's success in attracting multi-state healthcare issuers is at least partially due to its ability to leverage its critical mass to make up revenue on its volume as opposed to high individual fees.
- **Lower Legal Costs:** Issuing bonds through a multi-state authority results in fewer attorneys and authority officials with which to coordinate and hence fewer fees for healthcare providers. According to year-to-date fee information provided by Thompson Financial, the total gross weighted average fee for a fixed rate bond offering issued by a multi-state authority on behalf of a multi-state healthcare provider was lower on average by \$1.14 (\$5.32 versus \$4.19) per each \$1,000 in bonds when compared to single state issuers. In other words, for every \$100 million in bonds sold by multi-state issuers instead of single state issuing authorities, healthcare providers would have saved approximately \$114K in issuance fees. Multi-state providers therefore have a strong financial incentive to issue through a multi-state issuing authority.

## THE CURRENT STATE OF THE HOSPITAL INDUSTRY AND ITS IMPACT ON STATE FINANCE AUTHORITIES (CONT.)

- Streamlined Documentation and Ongoing Reporting: Each authority requires different documentation and levels of involvement during and after the financing. Minimizing the number of authorities involved keeps paperwork and the resulting management time and expense to a minimum.

### Conclusion

The conclusion of this analysis is that single state finance authorities are at a significant competitive disadvantage without the ability to issue bonds for hospital systems on a multi-state basis. Authorities that have multi-state issuing capabilities have provided a valuable service to large multi-state hospital systems and it appears that such service is being provided at no costs or risk to the finance authorities involved.

## IMPROVING AMERICA'S HOSPITAL SYSTEM

Hospitals across the country are now being tested in every possible aspect. As our population is growing and aging, the need for medical care is increasing and perfection is what the industry is striving for. Of course it is hard for hospitals to reach this point, but in ten different hospitals they are using innovation and a hard work ethic to improve care, reduce inefficiencies, and save money.

In 1999, almost 100,000 Americans died annually from medical errors and as of 2006 there were at least 1.5 million people who have had medication errors. At Boston's Brigham and Women's Hospital, they believe that staff should face up to the mistakes that might possibly go wrong. Doctors have opened the lines of communication with their patients and families in telling the truth. At John Hopkins, they are beginning to strive for better communication and interaction with families. Nurses and doctors are spending more time with patients and also students that shadow nurses receive training to better prepare themselves for the future.

Cooley Dickinson in Massachusetts is going back to the basics. Patients carry yellow cards that have information about what medications they are on, their last vaccination, and their contact information. The hospital even has removable signs on patient doors to distinguish if they may have an irritation or if they are a weak patient indicated by a "falling star." Virginia Mason Medical Center has made pain one of their top priorities. Nurses are checking on patients more than what they used to in order to see their status and whether or not they may need more medication. Doctors are also trying to use the best procedure for surgery in order for the patients to wake up quicker and feel less pain.

As of 2005, there were 118,000 vacancies for registered nurses in hospitals. With a job that requires a heavy workload, the University of Pittsburgh Medical Center is trying to help the overworked staff. They have opened up brainstorming groups for the nurses in order to create better performance around the hospital. The hospital has also added more staff and gave nurses quicker access to medical supplies to save time.

At Bradley Hospital in Rhode Island, they have started a new program for children. As many as 12 million children suffer from a mental behavioral or developmental disorder such as anxiety, depression, and eating disorders. The hospital has made the experience for the children more like school, with a schedule which includes story and playtime. They are treated for their problems with their parents present as well, to learn how to help their kids.

Denver Health has made their hospital technologically advanced. Computers are placed in all of the patient rooms in order to access information such as medical records and medical references. This gives doctors more time to spend with their patients and less errors around the hospital. In California, the idea of bringing better food to the patients to make them happier and relieve some pain is taking place. At Kaiser Permanente hospitals, they have given local farmers better business by getting the freshest fruits and vegetables for their patient meals.

Arizona's Banner Estrella Medical Center has created a design to their hospital that resembles something closer to a resort. Each patient is given their own room with a 30 inch television, big windows, a foldout couch so family could spend the

## IMPROVING AMERICA'S HOSPITAL SYSTEM (CONT.)

night, and medical equipment is hidden behind curtains. The hospital wants to do anything to make their time of healing a little less painful.

Finally, at Mount Sinai Medical Center in New York, they are specializing in special care at the end of life. The staff consists of only eight doctors, four nurses, and two social workers. What the staff tries to do is have a personal relationship with the patient and family in order to get through their tough time by treating depression and hearing life stories. When patients have meetings, not only can the patient get a massage from a massage therapist, but the whole family can as well.

Missed diagnosis, incorrect drug dosing, and failure to treat patients properly are a few of the problems that are faced. Experts agree that doctors, nurses, pharmacists and technicians will always make errors. It's the safety net around them that needs to be fixed. No matter how good a person is, they are human and will make mistakes on occasion. That is why systems need to be put in place to stop the errors from causing harm. (Source: Newsweek; 10/16/06)

## STATE HAPPENINGS

### PENNSYLVANIA

#### New Board Members

The Pennsylvania Higher Educational Facilities Authority (PHEFA) welcomed the following new members to the PHEFA Board at a board meeting held on January 10, 2007. Dennis M. O'Brien, Speaker of the House of Representatives to the position of Vice President; Anthony E. Wagner, Executive Deputy State Treasurer to the position of Treasurer; and Sam H. Smith, Minority Leader of the House of Representatives to the position of Board Member.

### National Association of Higher Educational Facilities Authorities

#### OFFICERS:

President	Linda Beaver	Nebraska
Vice President	Dr. Maribeth Wright	Iowa
Secretary	Marianne Remedios	Minnesota
Treasurer	Dennis Reilly	Wisconsin

#### DIRECTORS:

William Bostic	Pennsylvania
Jo Ann Soker	Colorado
Mike Stanard	Missouri

### National Council of Health Facilities Finance Authorities

#### OFFICERS:

President	Don Templeton	South Dakota
Vice-President	Blaine Bandi	Arizona
Secretary	Corinne Johnson	Colorado
Treasurer	Jim Parks	Louisiana

#### DIRECTORS:

Michelle Barstad	Montana
Ben Caswell	Massachusetts
Steven Fillebrown	New Jersey
Donna Fincke	Washington
Deborah Gorenz	New Mexico
Larry Nines	Wisconsin
Mike Stanard	Missouri