

HOSPITALS

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Tenn., a private foundation created by the sale of St. Francis Hospital to American Medical International in April 1994. AMI has since sold its assets to National Medical Enterprises. Assisi foundation officials would not disclose their assets.

•The Hilton Head Island Foundation in South Carolina, a \$22 million-asset community foundation created by the sale of Hilton Head Hospital to AMI in September 1994.

•The J. Marion Sims Foundation, a \$50 million-asset private foundation created by the sale of Springs Memorial Hospital in Lancaster, S.C., to Community Health Systems Inc. in November, 1994.

PRESSURE FORCES CHANGE

Competition in the health-care field has put pressure on many of the nation's 4,500 nonprofit hospitals to merge or sell in order to survive.

The *New York Times* reports that for-profit companies bought at least 47 nonprofit hospitals in 1994, and experts expect that number to rise.

Health maintenance organizations also have been changing to for-profit status at a rapid pace. *The Chronicle of Philanthropy* reports that two-thirds of the country's HMOs are now owned by for-profit companies - up from fewer than 20 percent in 1981.

The burden of competition was what led the board of Springs Memorial Hospital in Lancaster, S.C., to sell to a for-profit company last year.

"We're about 30 miles from Charlotte and 55 miles from Columbia, so we're sitting right between two areas that attract a lot of our patients," says James K. Davis, chairman of the board of the newly-formed Sims foundation - named for a renowned Lancaster-area physician.

"That and the rising costs of operating a hospital, the limited amount of capital resources - all the things you need to stay competitive," convinced the board to sell.

Officials at Mercy hospitals in Charlotte say their decision to sell to the authority that runs Carolinas

Medical Center was based on the board's assessment of how best to meet community needs.

"When the Sisters began Mercy Hospital in 1906, they did it because acute care in the Charlotte area was an unmet need," says Kim Rickwood, the hospital's director of community relations. "That's no longer the case. In all frankness, the Sisters are more interested in a one-on-one, grassroots level of service. Multi-million-dollar health-care [operations] are not totally consistent with their mission."

CHOOSING A MODEL

The key issues facing nonprofit hospitals boards in the wake of sales to for-profit companies are which type of charitable organization they wish to form.

Peter Dunn, program coordinator for community foundation services at the Council on Foundations in Washington, has been studying the trend.

He says while most foundations formed after hospital sales stay with health issues, there are other models, including community foundations with broad grantmaking guidelines and supporting foundations that are connected to existing community foundations.

Martin Lehfeldt, a consultant for the Atlanta-based Southeastern Council of Foundations, says boards that choose to form community foundations must be sure they can meet a "public support test" - meaning, they can show that support comes from a broad spectrum of the community.

That is precisely the route that leaders of the Hilton Head Island Hospital opted for after the hospital was sold for \$32 million to AMI in 1994.

"People who looked at the situation and the size of the island, the amount of money available, decided that would be absolutely the best use of that money," says John Taylor, former chairman of the hospital board and its pre-sale foundation. He now heads the board of the new for-profit hospital entity.

"We are a relatively small town with a permanent population of 26,000. We have lots of needs. And there was no such foundation on the island."

While the new Hilton Head Island

Foundation is still in the process of completing grant guidelines, it plans to fund a range of community needs, from the arts to health to social services.

The foundation board includes eight former hospital board members and 10 new member from the community, including local business owners, a member of the town Planning Commission and head of the local Boys & Girls Club.

In an unusual twist, the community foundation used \$6 million of its assets to purchase a 20 percent stake in the new for-profit Hilton Head Health System.



Lee Carey

"That was a way of keeping some local community involvement in the hospital," says Lee Carey, chairman of the Hilton Head Island Foundation. "It provides the community with some input into the local hospital."

Officials at Springs Hospital in Lancaster, S.C. held a three-day retreat after the sale of their nonprofit hospital to discuss what shape a new foundation should take.

The mission of the J. Marion Sims Foundation - which grew out of that retreat - is to "support programs and projects of prevention, education and therapy that enhance the health and wellness of the citizens of Lancaster County and the communities of Great Falls and Fort Long."

Plans for the new foundation in Charlotte still are being hammered out, but Rickwood says it will likely be a supporting organization for the Sisters of Mercy that will provide funds for new ministries in a number of areas, including health care.

BOON OR BUST?

Eugene Cochrane, head of the hospital division of the Charlotte-based Duke Endowment, says the endowment looks forward to collaborating with new foundations in the same way it does now with the Kate B. Reynolds Charitable Trust in Winston-Salem.

The two foundations - among the state's leading health-care funders - have worked together to support rural health-care programs and avoid duplication of efforts.

"We look at these [new foundations] in the same way as a United Way or any other entity in a community," says Vance Frye, director of the health care division at the Reynolds Trust. "Anything that we do in our statewide perspective, we have to look at what is happening in the local community."

While hospital sales have brought windfalls for philanthropy, it is less clear what they will bring to health care.

In many communities, the prospect of losing a nonprofit hospital has raised concerns about what will happen to the quality of health-care services and the mission of providing care to the needy.

Those worries were expressed by some residents of Hilton Head when the sale of the island's hospital was announced last year.

"The community was quite concerned," says Taylor, who heads the new for-profit hospital board. "We set up a series of public forums and bought advertising in our local newspaper to explain what we were about...I think we succeeded in eventually allaying the fears."

Rickwood of Mercy Hospital in Charlotte says the purchase of the hospital by a for-profit authority will result in increased choices for health-care consumers.

"The new hospital authority, once it includes Mercy, will include four acute-care hospitals, a number of specialty hospitals and a physicians group serving not just Charlotte, but a five-to-six-county area," she says. "It will provide exactly the opposite type of thing that people fear."

Only about 20 percent of North Carolina's 129 licensed hospitals are for-profit and regulators do not expect that number to change significantly.

"Nonprofit hospitals in this state have very strong roots in the commu-

nity and are strong financially," says Bob Fitzgerald, assistant director of the state Division of Facility Services, which licenses hospitals. "I would think it very unlikely in the short term that any of these facilities will be bought up by for-profits. They are just not very good targets."

Others are less definitive about the future.

"The health-care field in general is in a really unsettled transition period," says Ellen MacMillan, vice president of the North Carolina Hospital Association. "I don't think anyone wants to predict how things are going to come out."

MORE QUESTIONS

Nationally, some government regulators and consumer advocates have questioned whether charities are getting their fair share when nonprofit health-care organizations become for-profit.

For example, *The Chronicle of Philanthropy* reported last year on a battle between Blue Cross of California and the state over how much money should go in a charitable foundation.

Some nonprofit leaders are philosophically opposed to the idea of changing the status of their organizations.

John Stevens, chairman of the board of Memorial Mission Medical Center in Asheville, says the hospital "would never even entertain the idea" of becoming a for-profit business.

"We would regard it as selling out our heritage," he says. "The hospital is part of the fabric of our community. It's our culture."

Others say the creation of new foundations is the best way to preserve nonprofit missions beyond the life of a single organization.

"This [foundation] is more of a guarantee that we can continue to furnish good health-care to our citizens," says Davis of the Sims Foundation in South Carolina. "We have a lot of agencies that provide for ... our community. The idea is to support and expand their missions."

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