STORAGE NAME: h3971a.hcr
DATE: April 6, 1998

HOUSE OF REPRESENTATIVES
COMMITTEE ON
HEALTH CARE STANDARDS AND REGULATORY REFORM
BILL RESEARCH & ECONOMIC IMPACT STATEMENT

BILL #: HB 3971

RELATING TO: Health Facilities Authorities

SPONSOR(S): Representative Gay

COMPANION BILL(S): SB 1060(s)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) HEALTH CARE STANDARDS AND REGULATORY REFORM YEAS 8 NAYS 0
(2)
(3)
(4)
(5)

I. SUMMARY:

HB 3971 allows local health facility (hospital) authorities to use their bonding authorities to underwrite the purchase of accounts receivables from other not-for-profit health care facilities, whether they are in-state or out-of-state.

The Agency for Health Care Administration (agency) has indicated that the bill has no fiscal impact on state and local government, or the private sector.

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

Hospital authorities can establish and maintain an accounts receivables program for the benefit of hospitals both within and outside the authority's district (usually a county; hospital authorities most often serve a single county).

Definition of Health Facilities Authority:

Health facility authorities were created to "assist health facilities in the acquisition, construction, financing, and refinancing of projects in any corporated or unincorporated area within the geographical limits of the local agency (a health facility is defined as being not-for-profit)". Members of such an authority are appointed by the governing body of the local agency (for example, city or county commission). Therefore, the authority represents the direct will of the governing body of the local agency, and must act accordingly.

Accounts Receivables and Health Facilities:

Accounts receivables are those debts which are owed to the facility but remain uncollected. When a health facility bills for a service, the fee billed becomes a "receivable" and is considered an asset. Thus, in accounting terms, there is little difference in cash on hand and accounts receivable items. However, with many health facilities (especially rural hospitals) becoming increasingly cash-strapped, having sizable receivables are decidedly a negative. Large accounts receivables can also affect the ability of the hospital to raise capital through lower credit ratings and cause the hospital to pay higher interest rates on its debt.

As a result, it is desirable to be able to convert accounts receivables into cash. This can be done quickly by selling the accounts to a third party. The third party typically pays a certain discounted number of cents on the dollar of the total value of the account. This can be a positive, because, due to collections costs and bad debt, the facility can only expect to collect a percentage of the receivables. The purchaser typically specializes in collecting these types of receivables and feels that its collection costs are lower and more successful than the facility.

Specifically, a health facility could value its accounts receivables at 60 cents on the dollar and sell it to a third party at 66 cents on the dollar, realizing in effect a 10% profit. The third party could then actually collect 76 cents on the dollar, providing a 15% profit (10 cents income divided by the 66-cent purchase price). However, in order for both sides of the transaction to be successful, rigorous accounting must be made to correctly assess the value of the accounts in question.

B. EFFECT OF PROPOSED CHANGES:

Health facilities authority's accounts receivables can be extended to accounts purchased by health facilities. The program is also extended out of the state. (The program will be available only to not-for-profit health facilities).

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

   a. Does the bill increase anyone's taxes?

      No.

   b. Does the bill require or authorize an increase in any fees?

      No.

   c. Does the bill reduce total taxes, both rates and revenues?

      No.

   d. Does the bill reduce total fees, both rates and revenues?

      No.

   e. Does the bill authorize any fee or tax increase by any local government?

      No.

3. Personal Responsibility:

   a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

      No.

   b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

      Yes. Affected hospitals will have additional flexibility in structuring their financial portfolios.

4. Individual Freedom:

   a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

      N/A

   b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

      No.

5. Family Empowerment:

   a. If the bill purports to provide services to families or children:

      (1) Who evaluates the family's needs?

          N/A

      (2) Who makes the decisions?

          N/A

      (3) Are private alternatives permitted?

          N/A

      (4) Are families required to participate in a program?

          N/A

      (5) Are families penalized for not participating in a program?

          N/A

   b. Does the bill directly affect the legal rights and obligations between family members?

      N/A

   c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

      (1) parents and guardians?

          No.

      (2) service providers?

          No.

(3) government employees/agencies?

Hospital authorities.

D. STATUTE(S) AFFECTED:

Section 154.209, F.S.

E. SECTION-BY-SECTION RESEARCH:

This section need be completed only in the discretion of the Committee.

Section 1. Amends s. 154.209, F.S., to allow hospital authorities to issue bonds to underwrite the purchase of accounts receivables from other not-for-profit health care facilities, whether they are located within the state or not.

Section 2. Provides for an effective date of upon becoming law.

III. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

N/A

3. Long Run Effects Other Than Normal Growth:

N/A

4. Total Revenues and Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

   N/A

3. Long Run Effects Other Than Normal Growth:

   N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   N/A

2. Direct Private Sector Benefits:

   N/A

3. Effects on Competition, Private Enterprise and Employment Markets:

   The bill allows the potential for not-for-profit hospitals to enjoy additional flexibility in their financial activities that are not available to for-profit hospitals.

D. FISCAL COMMENTS:

   None.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

   This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

   This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

   This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

Under this bill, health facilities authorities could use their bonding authority to underwrite the purchase of accounts receivables from any other not-for-profit health facility, whether in Florida or not. Conceivably, this could entail the levying of bonds to support any Florida not-for-profit health facility's purchase of accounts receivables from any other not-for-profit health facility in the nation.

The final decision, however, would not be made by the purchasing health facility. The final decision rests with the local health facility **authority**. Furthermore, the authority could not enter into such a transaction without studying the deal closely. The authority would have to utilize a financial institution to underwrite the bonds prior to their being issued. The level of the authority's financial risk would be studied at length by the underwriting firm.

Since such transactions usually require the purchasing facility to issue debt to finance the purchase, using the health facilities authority's bonds to finance the transaction would allow the "full faith and credit" of the local agency to lower the interest rate on the transaction. Local governments typically have very high credit ratings and, therefore, issue debt at lower interest rates. With lower interest rates, more purchases could be funded and those purchases could be more profitable.

Such a program could allow larger, more financially secure health facilities to significantly assist smaller, more unstable ones. This could be done in such a way as to financially assist both facilities. Taxpayer risk would be limited, given that no taxes would be used. Taxpayers could be indirectly impacted in the case of a default on the bonds, but if the local authority and the bond underwriter discharge their responsibilities faithfully, there should be little risk of that occurring.

The agency indicates that:

"Ultimately, when considering the bill's impact on the agency or upon the state government as a whole, it is necessary to consider the structure of hospital authorities. Hospital authorities are agencies of a local government (generally city or county) that can levy bonds to support hospitals and other health care activities in the area. These authorities are wholly controlled by the local government. Moreover, these authorities are not required to do anything by this bill. The bill simply provides for the opportunity. The issue seems to be completely up to the local governments."

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

COMMITTEE ON HEALTH CARE STANDARDS AND REGULATORY REFORM:

Prepared by:	Legislative Research Director:
TERRI L. PADDON	ROBERT W. COGGINS