Alternatives for developing a hospital

Jefferson County has never had a hospital. To obtain acute care services, residents have to travel 20-30 miles to a hospital in an adjacent county. For many years, the civic leaders have talked about building a hospital and, for more than ten years, the board of county commissioners has been putting its annual budget surplus in its hospital fund. At the present time, the county commissioners have accumulated 25 million in cash, which is earmarked for a hospital, but the commissioners have been informed that 100 million will be required to build and equip a hospital of the appropriate size.

The county commissioners have considered several proposals for developing a hospital.

1. Establish a public hospital to be owned and operated by the county. Under this plan, the county would use the 25 million in the hospital funds as a down payment and would finance the remaining 75 million by tax exempt bonds. Once the building is complete, the county would hire and administrator to run the hospital. Commissioner Green likes this idea, because she has a nephew who needs a job and thinks running a hospital sounds like fun.
2. Establish a nonprofit corporation and have the county make a grant of 25 million to the nonprofit corporation for the purpose of building a hospital in the community. The nonprofit corporation would use bond financing for the remaining 75 million in capital cost. Once construction is complete, the hospital would be operated by the nonprofit corporation. If the nonprofit corporation ever dissolved or ceased to operate the hospital, it would have to return the entire 25 million grant to the county. Commissioner Blue, if everything in the county, including the new hospital, were to be destroyed someday by nuclear war, the county would not be able to get back any of the money that it gave to the nonprofit corporation. Commissioner Brown think Commissioner Blue is an idiot.
3. Establish a for profit corporation that will raise 100 million by selling shares in the new corporation to investors on the open market. This alternative was proposed by Commissioner Black. Because of his success in business, he believes private enterprise can build and operate the hospital in the most efficient manner. Under his proposal, the county will use the 25 million in its hospital fund to buy one fourth of the shares in the new for profit corporation. Therefore, the county will be a minority shareholder, but will probably be the largest single shareholder in the new corporation. Commisioner Green, who want the county to build and operate the hospital itself, is opposed to the idea of using a for profit corporation because of a concern for the uninsured and indigent people in the community.

As you might expect, the board of commissioners has been unable to agree on a proposal, and at the last meeting they almost came to blows. Therefore, the chair has appointed a committee to study the issue and report back at the next meeting. In turn, the committee has hired you as a consultant and wants your advice as to the best alternative for the county. The best alternative might be one of the aforementioned three proposals, some combination of those proposals, or a completely different proposal. Before evaluating each alternative, please fill in the chart showing the advantages and disadvantages for each type of legal structure. Then make a written recommendation to the county explaining your reasoning.

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| Issues | Public | Private, Non-Profit | Private, For-Profit |
| Exempt from income taxes |  |  |  |
| Exempt from property taxes |  |  |  |
| Eligible for tax-deductible donations |  |  |  |
| Able to use tax-exempt bond financing |  |  |  |
| Able to use equity financing |  |  |  |
| Able to use employee incentives of stock options |  |  |  |
| Subject to public oversight and control |  |  |  |
| Subject to public employement laws |  |  |  |
| Obligated to provide charity care |  |  |  |
| Subject to restrictions on use of public funds |  |  |  |
| Subject to IRS rules for 501 (c)(3) corporations |  |  |  |