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Hospital Bailouts

Federal

The Balanced Budget Act of 1997 is set to balance the budget by 2002. American Public Health Association (APHA) maintains that "the balanced budget is potentially dangerous to public health since it threatens the existence and funding of many health and environmental programs" (APHA, 1997). Teaching hospitals have felt the effect of the Medicare cuts that were part of the Balanced Budget Act. As teaching hospitals are the key providers of the nation's charitable care, they are affected disproportionately by cuts in government funding (Herbert, 1999).

There have been a number of government bailouts of hospitals in recent years due to the financial crises the hospitals have been experiencing. A few examples include:

> The Los Angeles County Hospital system is receiving $364 million in federal aid for the purpose of restructuring and expanding the current system. Thirty-six new outpatient clinics will be established as a first step. The ultimate goal of the restructuring is to take the emphasis off expensive hospital treatment and put it on less costly preventative care for the poor and uninsured of the county (Rabin, 1996).
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> San Diego General Hospital experienced a financial collapse in 1991 after they had fallen further and further behind in unpaid bills to suppliers, taxing agencies and mortgage payments to National Medical Enterprises from whom they purchased the hospital in August of 1989. The hospital could have received certain federal bailout funding and community support had it moved to non-profit status earlier. The hospital administrators had agreed to convert status in theory but the move was never actually implemented (Roach, 1991).
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> New York hospitals received a lifeline of $1.25 billion of federal funds over five years to do a complete overhaul of the system. The system has been put in these dire straits by powerful health maintenance organizations that force reduced rates for their private paying customers. Also, federal officials have been attempting to balance their budgets by cutting billions of dollars in hospital payments. Critics of the fund say that it is a waste of money because the hospital system is old, inefficient, and unable to adapt to changes in the marketplace. The reason Governor Pataki and President Clinton have approved this funding, however, is the risk involved in allowing the free market alone to determine the fate of New York Hospitals: Struggling hospitals in low-income neighborhoods would probably be the first to close, meaning that the poorest New Yorkers would be left with little or no medical care (Hernandez, 1997).

Private

The Northeast region has a large concentration of hospitals associated with universities, which are often slow to react to changing financial situations. It is not uncommon for university hospitals to drag down the credit rating of the university as a whole. Yet, some health facilities in that area are also primary employers, making it "politically unpopular to close or consolidate them." One of the latest examples is Georgetown University in Washington, D.C. (Meisler, 1998).

State

In order to save services such as obstetrics, in-patient children's care and urgent care Mayor Willie Brown has promised to make up a share of the $26 million deficit at San Francisco General Hospital. The hospital is suffering financially because of cuts in Medicare and Medi-Cal. The city is planning to contribute coverage for the hospital's shortfall; however, it is too early in the budget process to know how much (Torassa, 1999).

Pennsylvania's hospital sector also appears to be in financial trouble, with Philadelphia's systems suffering their worst losses in a decade and facilities in the state's western half showing an average negative operating margin and minimal cash reserves. The University of Pennsylvania Health System posted a $90 million operating loss last year, requiring a $123 million bailout from its parent, the University of Pennsylvania (*Health Line*, 1999).

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