

Fiscal Note & Local Impact Statement

122nd General Assembly of Ohio

BILL:	H.B. 301	DATE:	May 2, 1997
STATUS:	As Introduced	SPONSOR:	Rep. Netzley
LOCAL IMPACT STATEMENT REQUIRED:	No — No local cost		
CONTENTS:	Provides a process for the conversion of certain nonprofit health care entities to for profit entities		

State Fiscal Highlights

- Although the bill has no apparent direct fiscal effects on the state, substantial reparations of foregone taxes would accrue to charitable foundations – yet to be established.

Local Fiscal Highlights

- Although the bill has no apparent direct fiscal effects on local governments, it allows recognition of significant effects on Ohio communities as charitable donors.

Detailed Fiscal Analysis

The bill provides procedures for the conversion of certain nonprofit health entities to for profit entities, and requires the superintendent of insurance to review such conversions and appoint an appraisal committee to conduct financial examinations of organizations that receive a positive recommendation from the superintendent.

The bill defines a nonprofit health care entity as any domestic sickness and accident insurer, mutual insurance company, health maintenance organization, health care corporation, or other entity regulated by the Department of Insurance that provides health care services to persons in exchange for a premium, and which receives or has received a reduction in taxes due to its status as a nonprofit health care entity.

According to a May 1996 report of the American Medical News, there were 63 Blue Cross and Blue Shield Affiliates nationwide, with an enrollment of 63 million people. In Ohio, these affiliates vary in size of enrollment and in the volume of premiums generated, from the former Blue Cross of Central Ohio now Central Benefits Mutual with 43,000 subscribers to Blue Cross and Blue Shield of Ohio, the largest in the state, with an enrollment of 1.5 million Ohio residents and annual premiums of \$2.0 billion, according to a May 1996 Wall Street Journal report on corporate earnings. There also are currently 13 nonprofit HMOs in the state that could be subject to the bill's provisions. According to the Attorney General's office, there have been nine conversions of nonprofit entities to for-profit entities since October 1995 involving



hospitals, HMOs and Blue Cross and Blue Shield plans. In addition, there are currently five such conversions pending in Ohio.

At the time of writing this analysis, the Department of Insurance, had not responded to LBO's inquires, as to the effect of the bill on the departments operations.

The bill, by requiring that the AG determine that the proceeds of the transaction will be used consistent with the nonprofit health care entity's original charitable purpose will position Ohio communities to adequately evaluate their course of action, as charitable donors. The public's stake in these conversions is substantial in that they represent not only a fundamental change in the structure of the health care system, but also the re-deployment of charitable assets. While for-profit enterprises may prove valuable in terms of increasing competition, there is the resultant risk as well. Not-for-profit health care entities are community-owned institutions and the products of substantial community investment - in terms of charitable contributions, taxes foregone and volunteer time. They have provided services and access to them in response to community need, and profits are invested back into the community through expanded service.

The bill further requires that proceeds of an approved transaction be dedicated to existing or new charitable foundations. We assume that the amounts to be dedicated will be equal to that portion of the nonprofit health care entity's value that is attributed to any reduction in taxes and other social benefits received by virtue of the entity's status as a nonprofit health care entity. The potential amounts that could accrue to these charitable foundations is difficult to estimate, as they can only be determined on a case by case basis based on the outcome of the valuation process outlined in the bill. What follows thus, is a limited example of the requirements and outcomes in a few select states including Ohio. In California, the State Department of Corporations required Blue Cross of California to fund two public foundations with \$3.3 billion in its bid to convert. In Virginia, the legislature required Trigon Blue Cross Blue Shield to donate \$175 million to the state general fund. And very recently, the Ohio Attorney General reached a settlement with a former Blue Cross plan in Columbus (now Central Benefits Mutual) requiring the company to establish a charitable foundation with \$5.1 million to provide preventive health care services to the indigent in 29 central Ohio counties.

The bill also brings to mind other issues that are not specifically referenced. These are, (1) how these conversions in general will impact on the insurance tax base administered by the Department of Insurance; and (2) the potential for violation of antitrust laws. The tax issues could generate additional state and local revenue, with a movement from charitable to for profit status, but current insurance code is likely to minimize that effect.

□ *LBO staff: Ogbe O. Aideyman, Budget Analyst/Economist*

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