Hospital Accountability Project

Floyd Medical Center

A project of nonprofit consumer advocacy group Georgia Watch, the Hospital Accountability Project examines the financial practices of nonprofit and for-profit hospitals in the state, with a focus on health care affordability for self-pay, uninsured and underinsured patients.

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EXECUTIVE SUMMARY

Situated in the northwest corner of the state, Floyd Medical Center treats the majority of uninsured, underinsured and publicly insured patients in its area. And like many such "safety net" hospitals in the country, Floyd Medical faces formidable challenges as the health care landscape continues to change as more consumers become uninsured, and the need for affordable, accessible care grows.

In our research of Floyd Medical Center, we have found that:

- The tax-exempt nonprofit hospital offers high levels of indigent and charity care, and many areas of community benefits, including a mobile mammography unit and an indigent pharmacy program;
- Compensation for top-level executives at Floyd Medical rivals that of many for-profit Fortune 500 companies, including its chief executive, who was paid an average compensation of $838,799 annually between 2005 and 2007, including base pay and incentive pay, as well as retirement and other benefits;
- Like most other trauma centers in the state, Floyd Medical continues to lose money as one of nine Level II trauma centers in Georgia, which offers a high level of care to trauma patients;
- Floyd Medical significantly marks-up the prices of many of its services, including a 2,459 percent mark-up in anesthesiology services; and,
- Floyd Medical grants all self-pay patients up to a 60 percent discount on services, though the discounted price is still significantly higher than the actual cost of the procedure, maintaining a significant barrier to affordable care.

Located in a region with an uninsured rate that is higher than the state average, Floyd Medical Center and its area health consumers face substantial obstacles in financing health care. As with other counties in the state, Floyd County's unemployment rates continue to rise as the number of insured consumers continues to decrease. With a high number of its residents living below the poverty level, like in other such areas throughout the country, many of these residents delay needed care because they feel they cannot afford it, often choosing to postpone both preventative and ongoing care in lieu of paying their rent or mortgage.

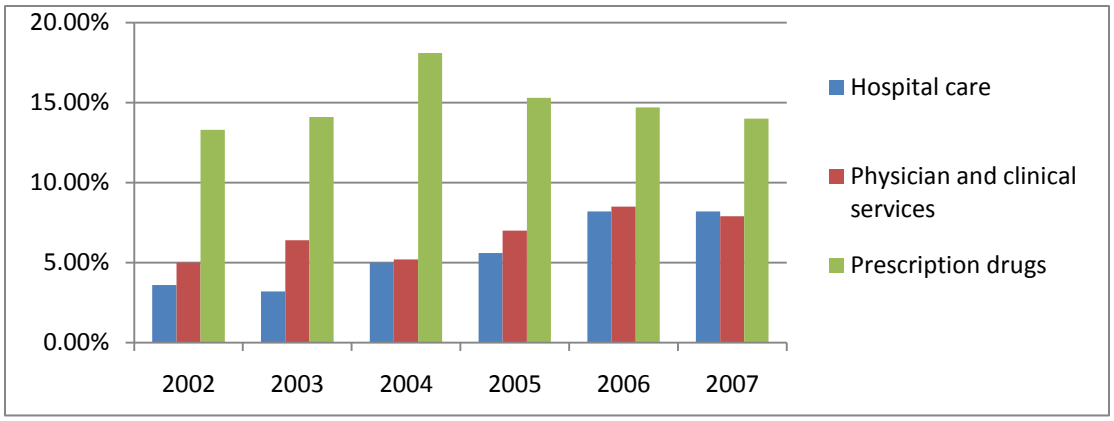
But, as studies have shown, this delay of care has a direct impact on their health, and conditions or medical needs that could have been treated affordably and efficiently in a clinic or primary care setting, escalate to the point of needing emergency treatment, the most expensive type of care. This not only directly impacts the consumer both financially and medically, but also the community as a whole, including the hospital, which may be left with an unpaid hospital bill.

Elected officials, hospital leadership, community leaders, employee representatives, patients and other stakeholders must work to identify and confront the underlying problems preventing millions of Georgia citizens from accessing quality, affordable and medically appropriate care. With the worsening economy and increasing numbers of uninsured and underinsured patients, the crisis of affordable care will only continue both for hospitals and consumers.

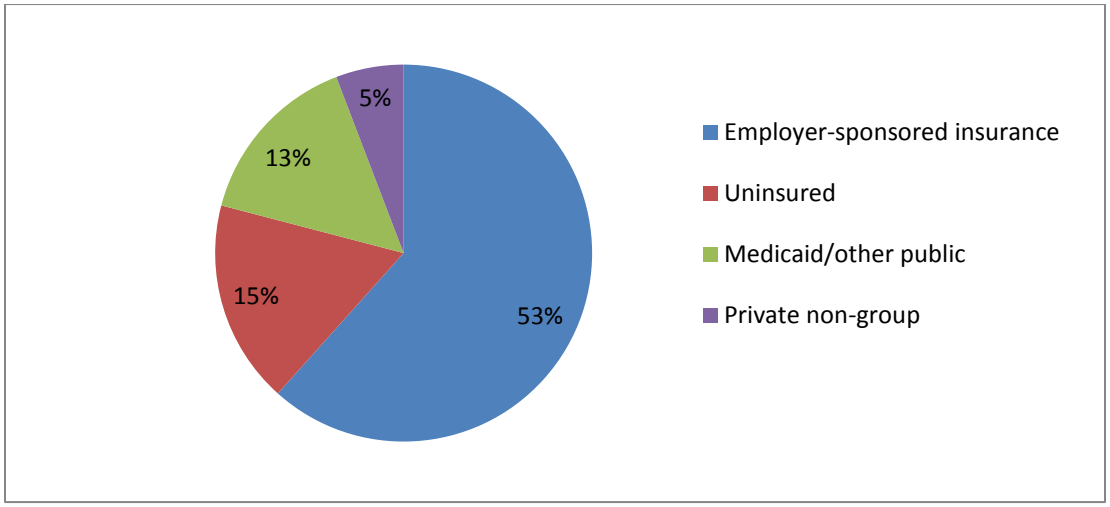
INTRODUCTION

Affordable health care has become a major issue for US businesses and consumers. The US spends significantly more on health care than other developed countries[i]. The average American now spends $7,421 on health care each year; in 1997, the cost was about $4,102 annually, per person. Sixteen percent of the domestic economy is devoted to health care, totaling about $2.2 trillion in 2007.

Annual percentage change in national spending for certain health services, 2002 to 2007[ii]



Today, 53 percent of Americans have employer-sponsored insurance, 13 percent are covered through government programs such as Medicaid or Medicare, 5 percent purchase their own insurance and the remaining 15 percent have no insurance at all.



A study released in March 2009 by nonprofit consumer group Families USA[iii] showed one in three Georgians younger than 65 – nearly three million people – were without health insurance at some point in 2007 and 2008. These numbers do not reflect the effect of the current economic recession on unemployment rates and health care coverage.

Georgia's unemployment rate jumped significantly from 5.6 percent in March 2008, to 9.2 percent in March 2009. During those 12 months, the state lost approximately 186,000 payroll jobs[iv]. The construction and manufacturing sectors saw significant job loss at 19.7 percent and 15.7 percent, respectively[v].

The rate of the uninsured among blacks is nearly double what it is for whites in Georgia. The rate of uninsured among Hispanics is also significantly higher, in part because Hispanics are more likely to work in the agricultural or service sectors, where health benefits aren't offered and low wages bar workers from purchasing their own.

As the US economic recession deepens and unemployment rates rise, the financial burden on hospitals grows. More patients arrive with no insurance or inadequate coverage with a high deductible that essentially forces them to forgo needed care and preventative care. Without the financial resources and adequate insurance to cover their health care costs, many patients will seek care in the emergency room – the only access point to the hospital for most uninsured patients.

Many emergency rooms have seen an increase in uninsured patients who have lost health benefits after losing their jobs[vi]. About 88 percent of the 1,200 doctors who responded to an American College of Emergency Physicians survey said they had treated patients who had been turned away elsewhere because they couldn't pay. For example, at Floyd Medical Center, there has been a 4 percent increase in uninsured patients in the last few years, from 28 percent of all emergency room patients in FY2005 to 32 percent in FY2008.[vii]

The cost for unemployed Americans who try to purchase coverage through a former employer consumes 30 to 84 percent of standard unemployment benefits, according to a Department of Labor report released in January[viii]. Because few people can afford that coverage, the result is a growing number of workers who not only lost their job, but also their health coverage.

In 1985, Congress passed legislation enabling newly unemployed Americans to extend their employer-based health insurance for up to 18 months. But those participating in the program, known as COBRA, must pay 102 percent of the policy's full cost.[ix] This cost can act as a barrier to affordable care as many unemployed workers are unable to afford that costly coverage[x].

While some patients live in more urban areas with health clinics that can provide primary and preventative care, many patients outside metropolitan areas do not have access to those resources past a county health department, which only offers a limited amount of services. When these patients finally do make it to a hospital, their condition is more advanced and more expensive to treat. These patients are more likely to receive care in an emergency room, and have visited a doctor about half as often as their insured counterparts[xi].

Because of their limited access to health care, uninsured and publicly insured patients may be three times more likely than privately insured individuals to experience adverse health outcomes, and four times more likely than insured patients to require hospitalization and expensive emergency care.

Between 1999 and 2008, employer-sponsored health insurance premiums increased six times faster than wages. Average employer contributions to family health care plans more than doubled, as did average worker contributions to those plans. Any pay increases awarded to the average worker were negated by growing monthly payroll deductions for health coverage – if the employee even received employer-sponsored health insurance. During this same period, deductibles tripled[xii].

Those who are underinsured have health care coverage that falls short of adequately covering health care needs. Generally, a patient who spends 10 percent or more of their annual gross income on health care costs is considered "underinsured." For example, if a person makes $40,000 a year but spends $4,000 or more on deductibles, co-pays for hospital visits and medication, or other health care-related costs, they are considered underinsured. National nonprofit health care group Community Catalyst reported in April 2009[xiii] that one-fifth of all insured adults in the US – about 25 million citizens – were underinsured in 2007. This vulnerable group of Americans has grown by 60 percent since 2003[xiv].

Because of the state's growing number of uninsured and underinsured consumers, safety net providers such as Grady Memorial Hospital (Atlanta) and Floyd Medical Center have seen an influx of patients in the last few years, a trend that is expected to continue. Also, more patients are utilizing neighborhood health clinics. For example, Oakhurst

Medical Center, located in metropolitan Atlanta, reported in June a significant jump in the number of patients treated, from 30 percent of their patient base in December to 38 percent of their patient base in May[xv]. As it stands, only 8 percent of the clinic's patients have employer-sponsored health coverage, with the remaining 54 percent of their patient base is covered through Medicaid, Medicare or PeachCare. Similar statistics are seen at community health centers throughout the state and nation.

While Georgia's safety net providers and clinics may be able to carry the additional patient load in the short term, some are beginning to buckle under the financial strain of providing more and more subsidized care, a development that threatens to reduce health care options for uninsured and underinsured patients.

Similarly, many health departments have recently eliminated thousands of jobs and cut back on services because of reduced government funding. Health departments play a leading role in preventive care, such as pap smears and prostate screenings, but are also heavily dependent on state revenues.

In contrast, some hospitals in the state – such as those owned by for-profit national hospital group HCA, Inc. – have posted a profit despite decreased paying admissions. HCA operates 24 acute care hospitals, ambulatory surgery centers and other health care facilities in Georgia, including Redmond Regional Medical Center in Rome, Ga., where Floyd Medical Center is located, and Cartersville Medical Center, approximately 25 miles east of Rome[xvi].

Hospitals are now exploring how patients' consumer data can boost their bottom line, using credit reports and scores to identify patients who are eligible for charity or free care. Critics of this approach to health care billing question the use of credit information to determine eligibility for discounted health care because a patient's credit score could be high even if income is low. Another concern with hospital credit scoring is the slippery slope towards more aggressive bill collection practices for those who may appear, on paper, to be able to afford their hospital bill but, in reality, are not.

State Service Delivery Region One

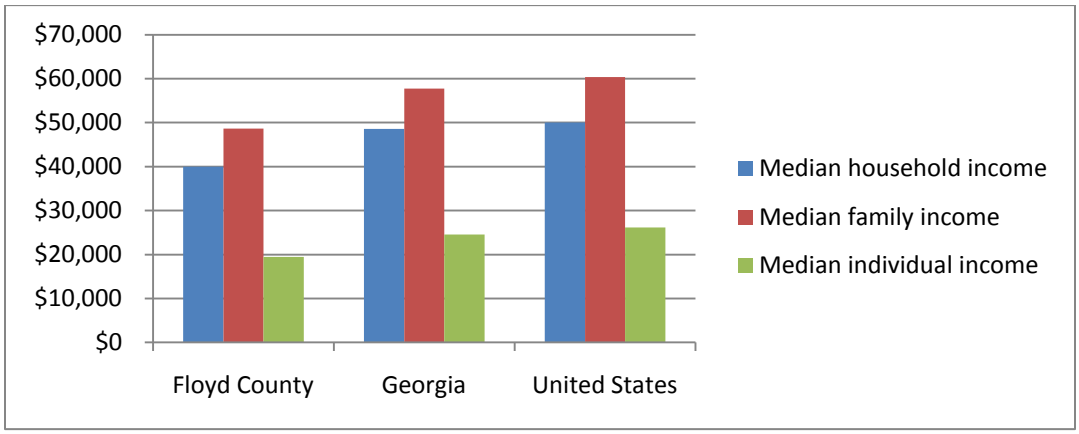
Floyd Medical Center is the only safety net facility in northwest Georgia, known as "State Service Delivery Region One." Approximately 16 percent, or 127,000, of Region One's nonelderly adult population are uninsured. In the past 12 months, 20 percent of the region's population was uninsured for at least one month, and 9 percent of the population was uninsured for at least a full year. Twenty-three percent of the region's population was insured through a public entity, and only 64 percent had private insurance.

About three out of every four uninsured adults in the region are employed. The majority of these residents is employed by small firms and companies, or is self-employed.

Predictably, there is a direct correlation between insurance status and health status in Region One. When surveyed by Georgia State's Health Policy Center, one in four uninsured people reported poor health, as compared to 9 percent of all Georgians regardless of insurance status[xvii]. Also, the uninsured are less likely to seek preventative care, and are less likely to have routine check-ups. Most have missed at least six work days in a single year due to a preventative illness. The uninsured tend to feel less confident about their ability to obtain health care than those with health care coverage. They are also less likely to have a primary care source than those with health insurance (48 percent vs. 87 percent)[xviii].

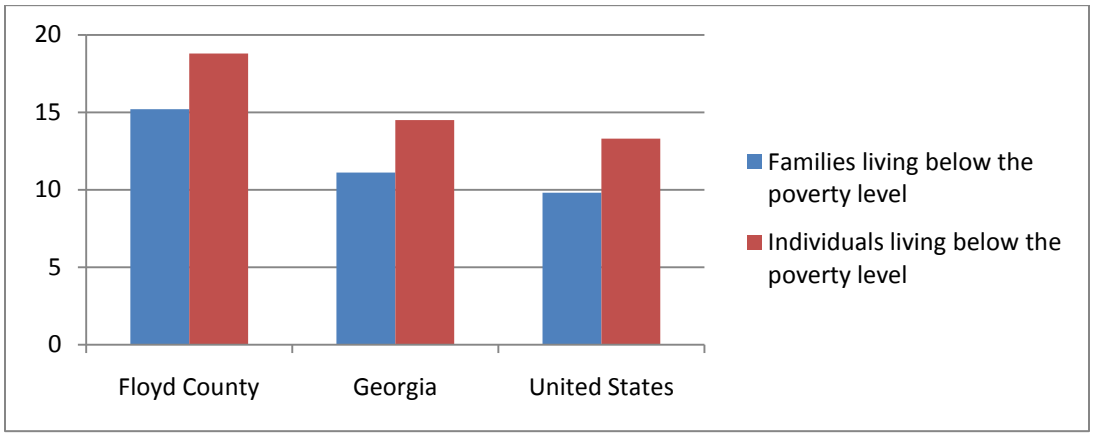
Malignant cancer and cardiovascular disease are the primary cause of death in Floyd, Chattooga and Polk counties, the three main counties Floyd Medical serves. Forty-four percent of patients depend on Medicare for primary health care coverage, 26 percent have commercial insurance and 20 percent are covered through the state's Medicaid program. According to the state Department of Labor, Floyd County's jobless rate grew to 10.5 percent in March 2009, up half a point from February and an increase of 5.5 percent over the previous year.

In 2008, Floyd County had a population of approximately 94,979, with a median household income of $39,987. The median family income was $48,630, and median per capita income was $19,489.



That year, more than 80 percent of the county's residents were Caucasian. Thirteen percent was African American, and approximately 7.5 percent of the population was Hispanic/Latino[xix].

Floyd County has significantly higher poverty rates than the state and national averages, with approximately 15 percent of the county's residents living below the poverty level. Those living below the poverty level often qualify for financial assistance with their medical bills, such as the public health insurance program Medicaid.



FLOYD MEDICAL CENTER

Established in 1942, Floyd Medical Center is an acute care hospital, regional referral center and a Level II trauma center, the only one of its kind in the region. The tax-exempt nonprofit hospital houses 304 beds and is the county's largest employer, with more than 2,000 employees on its payroll. The estimated economic impact of its payroll was $408.6 million in 2006.[xx]

The hospital staffs on-site translators who are fluent in Spanish, the Guatemalan dialect of Spanish and sign language. For other languages, Floyd Medical uses a standard translation phone service. The hospital's primary service area includes Floyd and two adjoining counties: Chattooga to the north and Polk to the south. Within this tri-county area, Floyd Medical is the market share leader with 49.4 percent of the patient volume. Of the remainder, 38.3 percent of the patients are treated at a smaller, for-profit acute care hospital; 2.3 percent are treated at a small hospital in Polk County and the remaining 10 percent receive care at hospitals outside Floyd Medical's primary service area[xxi].

Floyd Medical serves a large portion of the area's uninsured, underinsured and low-income patients, and is second only to Grady Memorial Hospital in the percentage of uninsured patients it treats. Tax-exempt, nonprofit hospitals like Floyd Medical Center are generally obligated to provide accessible and affordable health care. These health care services are referred to as "community benefits" and include charity and indigent care. In return, some nonprofit hospitals are subsidized by state and local governments.

For example, tax-exempt nonprofit hospitals do not pay most taxes, including sales, income and property. Because of this, tax-exempt nonprofit hospitals do not contribute financially to vital local infrastructure, such as road and sewer maintenance, or firefighter and police forces, even though they utilize these services.

Under IRS law[xxii], a tax-exempt nonprofit hospital, classified as a 501(c)(3) charity, is required to have a mission that will benefit its community; reinvest all surplus funds in the hospital in a way that benefits the community; have compensation for executives, contractors and other employees in accordance to fair market value; remain accountable to the community; refrain from participating in political campaigns for or against candidates, or lobbying as a substantial part of their activities; and, remain financially accountable to the community by not allowing any portion of its net earnings to benefit any private shareholder or individual[xxiii].

The Congressional Budget Office estimates that nonprofit hospitals receive $12.6 billion in annual tax exemptions, a figure that does not include $32 billion in federal, state and local subsidies the hospital industry receives each year.

Local property tax exemptions account for the largest amount of savings for tax-exempt nonprofit hospitals and medical facilities.

Safety net hospitals, which account for two percent of all hospitals, provide 25 percent of the nation's uncompensated care.

Floyd Medical is a safety net facility, meaning it provides higher levels than most hospitals of unreimbursed indigent and charity care. As a safety net provider, Floyd must have an "open door" policy to offer services to all patients, regardless of ability to pay. A significant percentage of its patient mix is either uninsured, covered by Medicaid or otherwise considered vulnerable[xxiv].

For some of these patients, federal, state and local governments will subsidize their health care costs through state programs or Medicaid reimbursements. Uninsured and underinsured patients not eligible for indigent or charity care may struggle to pay their medical bills, and can fall into default or bankruptcy. Because of this, safety net hospitals are left with the unpaid medical bills. In January 2009, Floyd County announced budget shortfalls and cut its $320,000 contribution for indigent health care.

Quality

In 2007, the Joint Commission recognized Floyd Medical Center as a center for excellence for its hip and knee replacement. Redmond Regional Medical Center and Floyd Medical both were recognized in the bronze initial performance award category in a recent US News and World Report[xxv].

Floyd Medical Center generally ranks higher than the state average in terms of quality of patient care, though it falls far short in certain areas. For example, Floyd Medical is well below the state average for giving adequate discharge information for heart failure patients[xxvi], though 100 percent of those patients claim to have received smoking cessation counseling at the time of discharge.

According to HealthGrades, which utilizes Centers for Medicaid and Medicare (CMS) data, the hospital performs worse than the national average for:

- Bed sores;
- Timely diagnosis and treatment;
- Post-surgical hip fractures;
- Excessive bleeding or bruising after surgery;

- Post-surgical blood clots in the lungs and/or legs; and,
- Surgical wounds.

Floyd Medical has higher than average survival rates for heart attacks and heart failure.

As for patient evaluations:

- Seventy-three percent of Floyd Medical Center patients gave the facility a ranking of nine or ten – with ten being the highest – versus a state average of 65 percent and a national average of 63 percent;
- Eighty-two percent of patients feel the doctor communicated well, compared to the state average of 81 percent; and,
- Seventy-nine percent of patients said they would recommend the facility to a friend or family member, as compared to a state average of 68 percent and a national average of 67 percent.

The hospital is also known for its Methicillin resistant Staphylococcus aureus, or MRSA, education and prevention.[xxvii]

FLOYD MEDICAL CENTER BY THE NUMBERS

Floyd Medical Center is governed by the Floyd Healthcare Management's board of directors, which is comprised of 12 volunteer physicians, community and government leaders. The Hospital Authority of Floyd County, which is run by a seven-member board, owns real estate holdings leased by the management board. The eight-member Floyd Healthcare Resources' board operates as a holding company for medically-related business investments initially funded through loans made by the Hospital Authority and/or Management board.

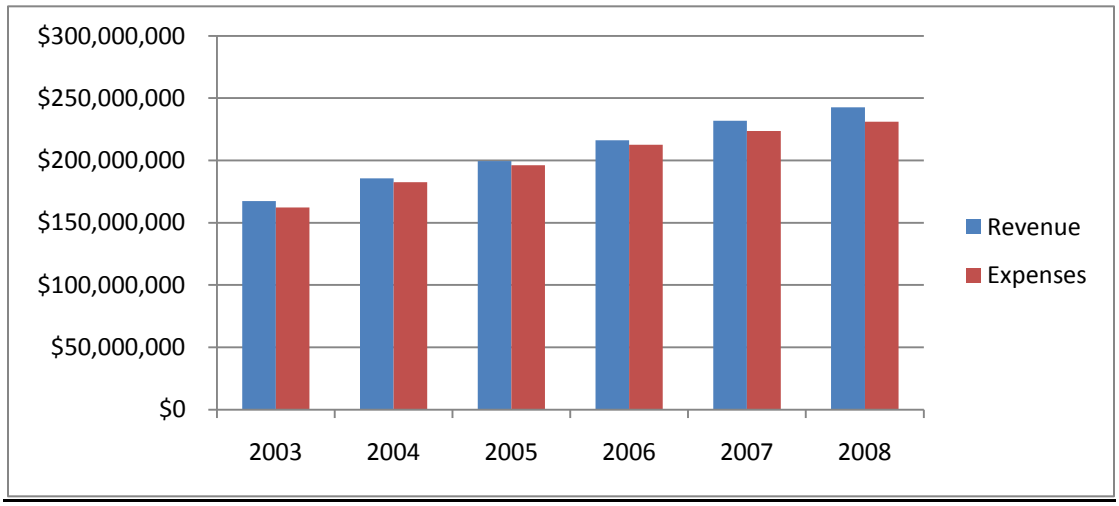
The tax-exempt Floyd Healthcare Resources, Inc. and the nonprofit Floyd Health Care Foundation are related entities to Floyd Healthcare Management. The Specialty Hospital, located in the Floyd Medical Center, is a joint venture of Rehabcare (80 percent) and Floyd Medical Center (20 percent), and specializes in long-term care.

Revenue and expenses

In FY2007, Floyd Medical's gross patient revenue was $ 231,788,138, with 10,437 total discharges and 70,574 total patient days[xxviii].

Admissions:	12,450
Inpatient surgeries:	6,401
Outpatient visits:	185,211
Outpatient surgeries:	3,709
Emergency room visits:	67,378[xxix]

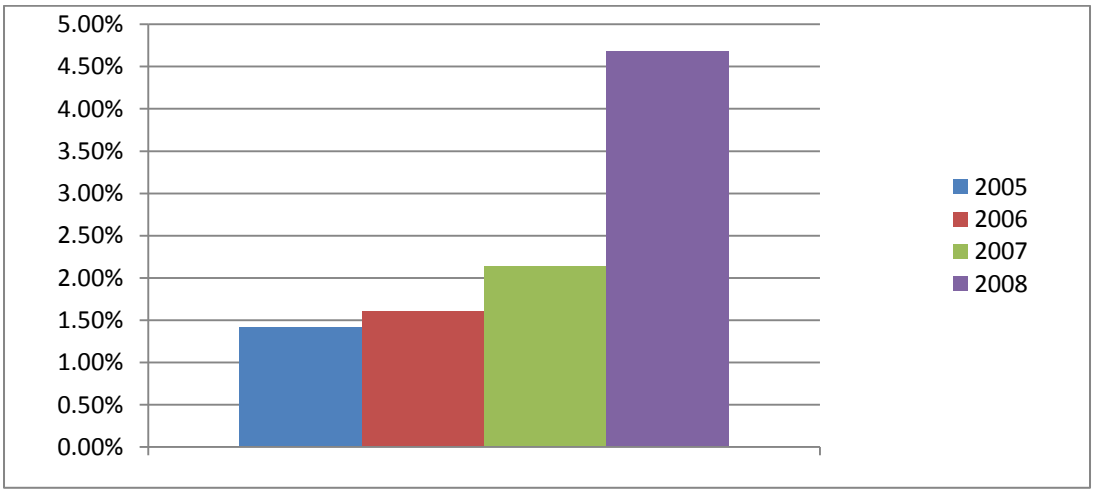
Revenue and expenses for Floyd Healthcare Management



Operating margins and revenue

Operating margin is a measure of efficiency and profitability that indicates how much of revenue will eventually become profit for a company. For a tax-exempt nonprofit hospital, the higher the operating margin, the more money that can be reinvested in the hospital.

Floyd Medical Operating Margin = Floyd Medical Operating Income/Revenue[xxx]

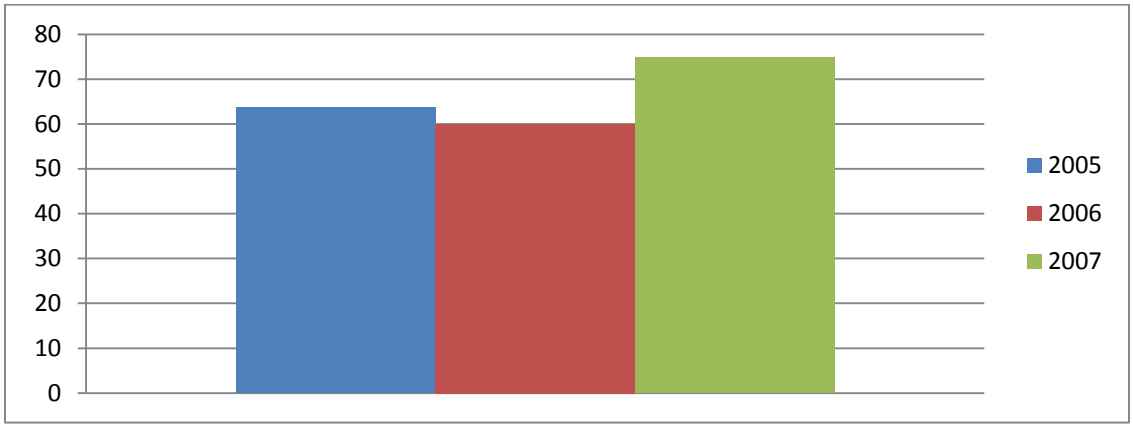


Days cash on hand

Nonprofit and for-profit hospitals keep cash "on hand" and other assets that can be quickly liquidated. "Days cash on hand" measures how many days a hospital could operate if funded solely by working capital and investment assets. The amount of cash also serves as one method of assessing the size of a hospital's precautionary assets.

Floyd Medical Center calculates days cash on hand as:

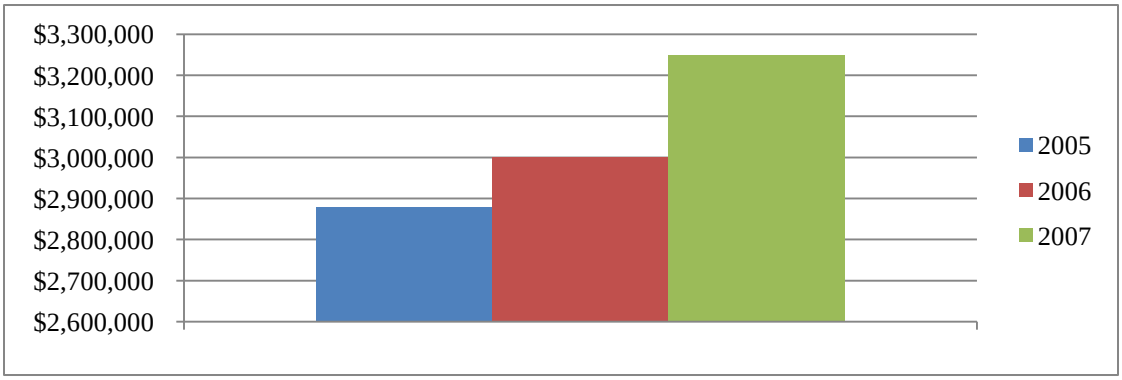
$$\frac{\text{CASH + INVESTMENTS}}{\text{(EXPENSES – BAD DEBT)/365}}$$[xxxi]



Though the hospital's cash on hand increased by 14.8 days between 2006 and 2007, it is still approximately half the national average of 149 days in 2007.[xxxii]

Executive compensation

Compensation for the 21 Floyd Medical executives, directors, trustees and key employees totaled $3,248,091 in FY2007. Half of those were paid less than $5,000 in total salary, benefits and expenses, as they were members of the hospital's board who took little compensation.



In FY2007, CEO and President Kurt Stuenkel's compensation accounted for approximately 23 percent of the total executive compensation amount. In FY2007, IRS Form 990 records compensation for Stuenkel from all sources to be $901,948, an amount that does not include expense reimbursement. Of this total $178,494 is in the benefits column, which is mainly a retirement contribution. The IRS Form 990 also notes there was "incentive pay" of $295,632, which was delayed incentive for two years - FY 2004 and FY 2005. In FY2006, Stuenkel was paid a total $906,883 - $295,632 of which was combined delayed income for FY2004 and FY2005, classified as "incentive pay." [xxxiii]

Excluding board members, other executives at Floyd Medical Center enjoyed generous compensation packages that ranged between $200,000 and $500,000, a similar compensation model seen at many of the state's nonprofit hospitals.

Common justification for high executive pay is the ability to recruit top talent in hospital leadership, a model used by most businesses. But, many argue, in areas where the per capita income is low and the poverty level is high, it is unreasonable for an executive to be paid high salaries that are up to 50 times the average individual's income. For example, the per capita income in Rome is approximately $19,500; in FY2006, Stuenkel's pay was about 46 times that amount.

That sort of compensation is high even when compared to executives at national and international nonprofits:

- Nicholas DeTorrente, CEO of Doctors Without Borders - $144,066
- Larry Cox, CEO of Amnesty International - $245,491
- Eric Hargis, CEO of the Epilepsy Foundation - $360,955
- Cecile Richards, CEO of Planned Parenthood of America - $426,062
- Edward A. Powell, CEO of United Service Organization - $491,557
- Brian Gallagher, CEO of United Way America - $682,490

Community benefits

Community benefits are generally considered benefits offered to the region served by a tax-exempt nonprofit hospital as an informal exchange for its tax-exempt status. The community benefits standard challenges tax-exempt nonprofit hospitals to go above and beyond for-profit counterparts in offering low-cost or no-cost services to the local community as a means of justifying the benefits of nonprofit status.

In Georgia, for-profit and nonprofit hospitals have little difference in the amount of community benefits they offer.

There is no specific IRS ruling requiring that tax-exempt nonprofit hospitals provide free care to meet the community benefit standard. Tax-exempt nonprofit hospitals have no obligation to provide free care outside of the emergency room. They can charge for non-emergency care and can refuse to provide non-emergency care based on one's ability to pay. Georgia does not currently require the detailed reporting of community benefits by nonprofit hospitals. Some states have taken an active role in examining nonprofit hospitals, and have set forth requirements and penalties.

Indigent and charity care

Tax-exempt nonprofit hospitals use a variety of terms to describe financial losses on services provided to the community. Though these descriptions aren't always uniform, they are generally defined as:

Indigent care: Subsidized health care services for qualifying patients who are unable to pay any portion of their bill, with no collection efforts for any amount of that bill;

Charity care: Reduced-cost health care services delivered to a qualifying patient with no expectation of payments for those services past an agreed upon amount, with no collection efforts past that agreed upon amount; and,

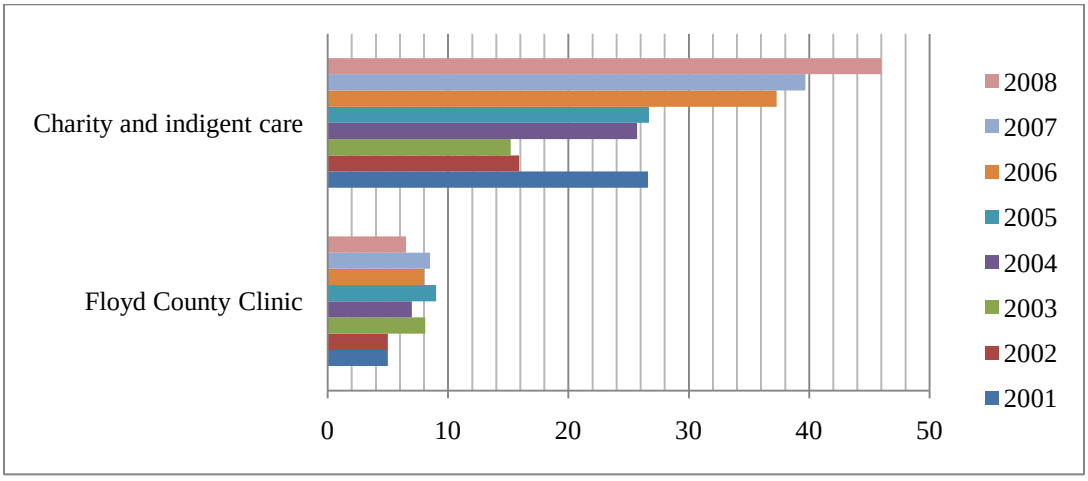
Uncompensated care: Health care services that go uncompensated, which may include charity care, bad debts and discounts for Medicaid and Medicare. Bad debt most often reflects a lack of payment from both private insurance companies and self-pay patients, and often reflects the inflated chargemaster rates, not the actual cost of services and procedures.

As a safety net facility, Floyd Medical Center treats a significant number of uninsured, low-income patients. The hospital participates in Medicaid and Medicare, as well as the Indigent Care Trust Fund (ICTF), a 19-year-old program that expands Medicaid eligibility and services, supports rural health care facilities that serve the medically indigent, and funds primary health care programs for medically indigent Georgians[xxxiv]. ICTF is Georgia's mechanism for distributing federal Disproportionate Share Hospital (DSH) program dollars to hospitals. This funding offsets the cost of caring for uninsured, underinsured and publicly-insured patients. Large DSH allocations generally indicate high numbers of patients and amounts of unreimbursed health care costs. Although it serves the second highest number of uninsured patients in Georgia, Floyd Medical ranks fifth in the state for receiving DSH funds[xxxv], having received approximately $7,745,112 in 2008[xxxvi].

In addition to participating in the ICTF, Floyd Medical is one of three sponsors of the Floyd County Clinic, which serves low-income, uninsured patients. Participating patients are also eligible to receive free care at Floyd Medical. While the Floyd County Commission previously provided some funding – $200,000 in FY2008 – the commission did not allocate funds to the clinic in 2009.

As evidenced below, the amount of indigent and charity care steadily increased between 2001 and 2008.

Amount to the community in benefits, in millions



In addition to community benefit offerings through indigent and charity care, Floyd Medical Center delivers other services considered to be community benefits to its region, including:

The Free Clinic of Rome: This facility provides a primary care home, referrals and inpatient care for county residents who are at or below the federal poverty level (FPL) but do not qualify for Medicaid and Medicare.
We Care: Focusing solely on patients with chronic health conditions, We Care programs provide free primary care to low-income, uninsured patients.
Mobile Mammography Outreach Program: Launched in November 2008, the program provides mammography services to women at their workplace and other convenient community locations. Since its inception, the program has performed approximately 500 mammograms.
Cancer Navigators: A joint venture between Floyd Medical and several other community clinics, Cancer Navigators serves approximately 250 cancer patients each year, providing patient education about their specific diagnosis, a licensed clinic social worker to assist with financial counseling and transportation to and from treatment, and various patient retreats. Floyd Medical provides approximately $80,000 of in-kind donations for the program.

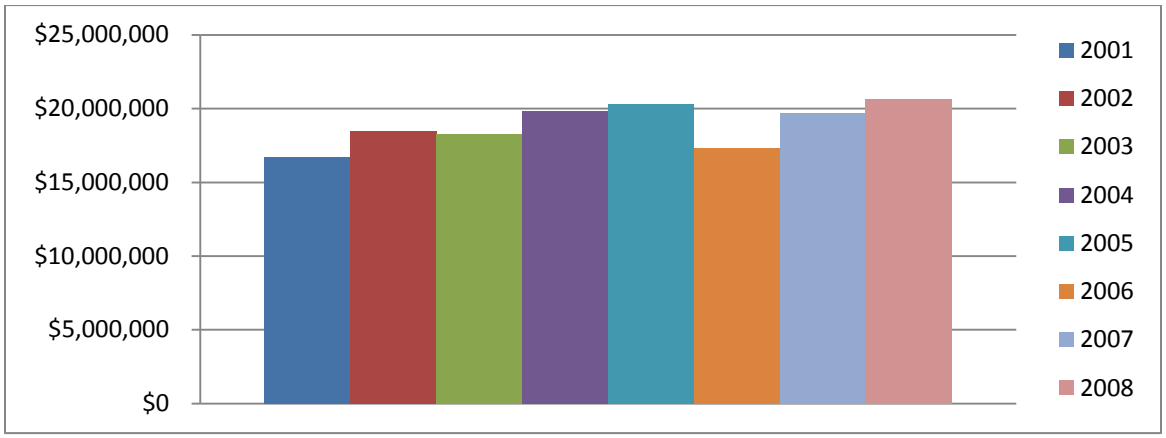
Spotlight program: Indigent Pharmacy Program

Created in May 2000, the Indigent Pharmacy Program enrolls eligible patients in the indigent pharmacy program of one or more national pharmaceutical companies to receive prescriptions at no cost. Floyd Medical Center provides the financial and clinical verification, obtains all necessary information and completes the application on behalf of the patient. Prescription medications are then dispensed at the on-site Floyd Medical pharmacy or delivered to a patient's home. Similar programs exist throughout the state.

The program provides medications to more than 1,000 indigent patients. While the pharmaceutical companies provide the drugs, Floyd Medical pays for approximately $200,000 annually in administrative costs.

Bad debt

Bad debt is generally defined as funds the hospital expects to receive for care but does not. These are amounts due either by the patient or by a third-party insurer.



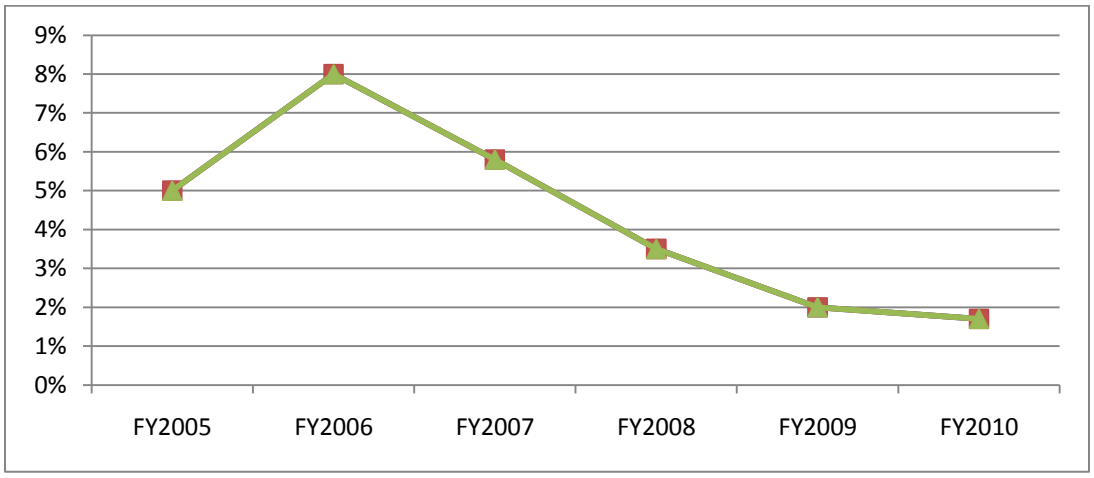
Between FY2001 and FY2008, Floyd Medical Center reported an average bad debt amount of $19,006,174.

Pricing and affordability

Regulations and requirements associated with the ICTF and its tax-exempt status – not to mention their own founding missions – are meant to compel tax-exempt nonprofit hospitals to provide free and reduced-cost medical care and services to eligible patients. While all patients are charged the same for services, only self-pay patients are actually expected to pay that amount. In fact, the uninsured often pay as much as ten times more than HMOs, insurance companies and government programs such as Medicare.[xxxvii] That said, Floyd Medical will grant to those agreeing to pay their bill a discount similar to that of a private insurer – up to 60 percent of their bill.

Government health insurance programs (Medicaid, Medicare and PeachCare) reimburse hospitals at rates determined by CMS, and these reimbursements are often significantly below cost. Using formidable negotiating power, private health insurance companies pay only a percentage of the charged rate, and this percentage - as well as the charges - varies between markets.

Below is a chart of general price increases at Floyd Medical over the last five years. Fiscal Year 2010 will have the lowest price increase since 2005 – 1.7 percent, a sharp drop from FY2006, when all prices were increased by 8 percent.



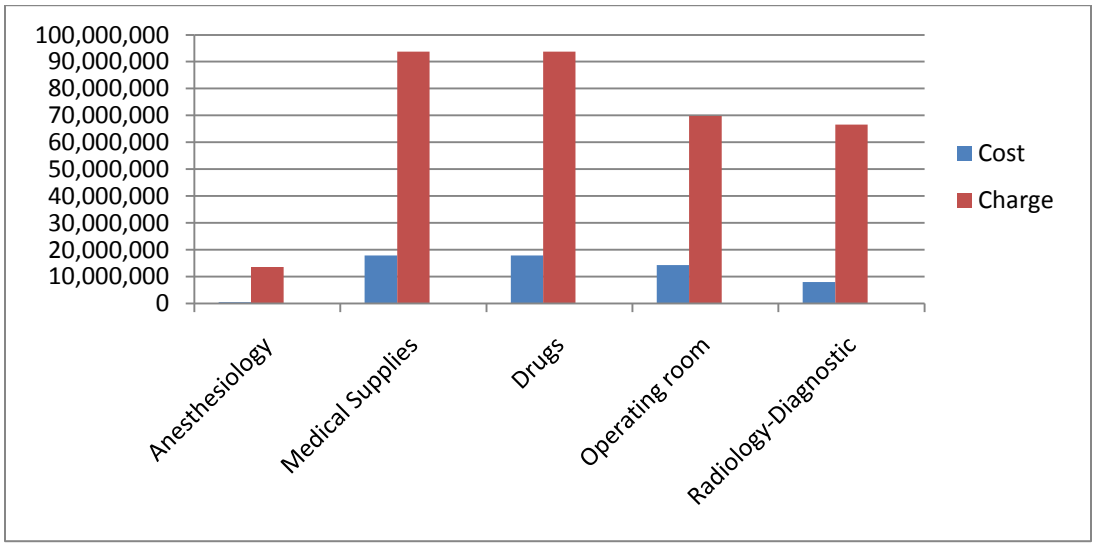
Mark-ups

The mark-up of the amount a patient is charged versus what the service or product actually costs is generally meant to offset the cost of unreimbursed care for patients qualifying for indigent or charity care, as well as the bad debt incurred by treating uninsured patients who are unable to pay their bill. Even so, self-pay patients are the only patients expected to pay the full amount, and if those patients do not qualify for financial assistance, they are pursued by collections to repay that debt. For those who cannot, their credit may be damaged and, for many, bankruptcy becomes a reality. In the United States, medical debt is the leading cause of bankruptcy in the US.

According to Floyd Medical information, the only accounts sent to collections are those who fully ignore their bill, and do not respond to efforts by the hospital to create a payment plan. Every patient is eligible for a discount on their bill, as long as payment is guaranteed.

In FY2007, Floyd Medical Center had an average mark-up of 285 percent charge over cost, meaning that for every $1 charged, only $.35 was spent on actual cost.

For specific services:



Most notably, anesthesiology charges were increased 2,459 percent over cost – patient charges of $13,623,018, compared to $554,033 in actual costs.

While specific charges differed, Rome-based Redmond Regional also engages in significant mark-ups, including:

- Anesthesiology: 1,927 percent;
- Electrocardiology: 1,373 percent;
- Laboratory fees: 1,560 percent; and,
- Radiology and diagnostic: 1,145 percent[xxxviii].

For eligible self-pay patients, Floyd Medical grants up to a 60 percent discount on hospital charges if the patient agrees to pay the bill and lives at between 125 percent and 325 percent FPL[xxxix]. On average, private insurance companies are granted a similar discount on hospital charges.

Floyd Medical tends to charge more than state and national averages for certain areas of care, such as cardiology, hip or knee replacement, chronic pulmonary disease, sepsis, gastrointestinal bleed and bowel obstruction – all of which are among its top procedures and diagnosis. For example, Floyd Medical's average charge for heart failure is approximately 36 percent higher than the overall average of hospitals in the state. The daily hospital charges for hip or knee replacement is 46 percent higher than the state average.

While mark-ups at hospitals for many procedures is common, having such a significantly higher mark-up for the same service at a hospital less than three miles away is not as common.

Trauma care

As the leading cause of death of Americans under 44 years of age, trauma is considered any life-threatening occurrence, either accidental or intentional, that causes severe injury. Treatment during the "golden hour," or the first 60 minutes after the trauma occurred, is crucial for survival. Hospital participation in the state's trauma network is voluntary, and there are certain requirements for each level of care.

Some have estimated that approximately 700 victims die each year due to the lack of sufficient trauma centers in the Georgia.

With only 15 trauma centers in the state, Georgia's trauma network is considered highly deficient. Georgia hospitals claim to provide more than $170 million in uncompensated trauma care each year. It is estimated that the state's trauma centers lose approximately $250 million annually,[xl] though this figure represents charges, not costs.[xli]

In northwest Georgia, Floyd Medical Center is the region's primary trauma center. As a Level II center, Floyd Medical provides comprehensive trauma care and 24-hour access to all essential specialties, personnel and equipment. The financial losses incurred in the operation of its trauma center aren't as high as what other trauma hospitals report. Even so, the hospital lost $2.2 million in FY2006, $361,321 in FY2007 and $1,041,414 in FY2008. The difference between 2006 and 2007 is due to a one-time state infusion of cash of $1.7 million.

Floyd Medical Center at the state Capitol

Campaign contributions

Between the years of 2006 and 2008, Floyd Medical executives contributed a total $22,725 to PACs, hospital associations and congresspersons. Donors may prefer to siphon contributions through PACs to keep personal information private. PACs are private groups organized for or against a specific candidate, or to pass or defeat a specific piece of information. Funds contributed to PACs are distributed to particular candidates.

Rep. Katie Dempsey (R-Rome), who sits on the board of the Floyd Health Care Foundation, received $4,150; HosPAC received $4,400 and Sen. Preston Smith (R-Rome) received $2,050.

Both Smith and Dempsey accepted funds from hospital-related PACs, including HosPAC, GSA PAC Committee for Responsible Health Care Policy, Georgia Dental PAC, Harbin Clinic State PAC, Ambulatory Surgery Centers PAC and GA Medical PAC.

Between 2006 and 2008, Floyd Medical CEO Stuenkel contributed $10,500 to PACs, politicians, and hospital associations. He donated $3,000 to the American Hospital Association PAC; $1,500 to the Georgia Alliance of Community Hospitals; $1,000 to Sen. Preston Smith (R-Rome); and, $2,000 to US Representative Phil Gingrey (R-GA) [xlii].

Lobbying[xliii]

On March 16, 2009, Floyd Medical reported $40,000 in lobbying expenditures during the fourth quarter of 2008, an election year. In the first quarter of 2009, the hospital reported another $30,000 in expenditures[xliv]. Russ Reid Company, the lobbying firm hired by Floyd Medical, works with more nonprofits than any other firm in the nation. Floyd Medical actively contributes to and are members of groups such as the Georgia Hospital Association and the Georgia Alliance of Community Hospitals, both of which lobby on behalf of their members.

CONCLUSION

Facing the same challenges as many tax-exempt nonprofit hospitals in the country, Floyd Medical Center exhibits some model practices when caring for uninsured, underinsured, Medicaid and Medicare patients. As northwest Georgia's primary safety net hospital, Floyd Medical shoulders the financial burden of caring for needy patients, offering many services at a discount, and even some preventative care at no charge or on a sliding scale basis.

The hospital consistently exhibits a strong outreach effort towards the community's health, including its pharmacy program and its participation in the Floyd County Clinic. In addition, the hospital has other commendable practices, such as significant discounts to self-pay patients and the availability of on-site translators.

However, the facility also engages in certain practices that mirror those of other nonprofit hospitals in Georgia, including high executive compensation and tremendous mark-ups of charge over cost, which is a barrier to affordable care for uninsured, underinsured, low-income and self-pay patients.

Hospitals and patients alike are affected by the current economic downturn, and the situation will likely worsen over the next year or more. Lawmakers, hospital leadership, community leaders and consumers must work together to identify the underlying issues creating the crisis of affordable care and causing hospitals and patients to buckle under the financial burden of health care.

Public policy recommendations:

Affordability: Patient charges should be fair and clearly explained at the time of hospital admission. Cost should be based on a sliding scale fee system that takes into account patients' ability to pay. Tax-exempt hospitals should employ a uniform system of screening patients for eligibility in payment assistance programs.

Notice of financial assistance: Tax-exempt hospitals should have clear signage in all points of entry to the hospital that financial assistance is available for those who qualify. These signs should be in languages appropriate for their patient mix. Any member of the public should be able to access this information in a written manner that will explain the terms of eligibility and the application process for accessing these services.

Compliance: All hospitals utilizing taxpayer funds for charity and indigent care should comply with related state regulations and requirements, and state agencies should establish and enforce penalties for noncompliance.

Oversight: The state Department of Revenue should conduct annual audits and certifications of tax-exempt nonprofit hospitals in Georgia.

Community benefits: Every nonprofit hospital should be required to publish policies for their community benefits offerings that focus on indigent and charity care, as well as other policies that directly affect the welfare of their

community. There should be a statewide standard on what is included as a community benefit, as well as standardized reporting regulations and established penalties for non-compliance of regulations.

Assessments to evaluate real value of tax-exempt status: County taxing authorities should annually assess the property holdings of tax-exempt nonprofit health care facilities to ensure the community is receiving a comparable benefit for its loss of property tax revenue.

Statewide Trauma Network: Strengthen and expand infrastructure by regionalizing the statewide trauma network, bolstering existing trauma care offerings and linking all ambulance services to specialty services. Service areas should be standardized, tying into 911 practices. Incentives should be developed that will encourage a hospital's participation in the state's trauma care system.

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[i] National Coalition on Health Care, http://www.nchc.org/documents/Cost%20Fact%20Sheet-2009.pdf. (as of June 15, 2009)
[ii] Kaiser Family Foundation calculations using NHE data from Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group.
[iii] "Americans at Risk," Families USA, March 2009.
[iv] Department of Labor statistics, 2009.
[v] Georgia Department of Labor.
[vi] "Americans at Risk," Families USA, March 2009.
[vii] Information provided by Floyd Medical Center.
[viii] United States Department of Labor.
[ix] A provision in the stimulus law signed earlier this year extends employer health coverage through 2009 via the COBRA program, with a 65 percent federal subsidy, for some who are laid off.
[x] Ceci Connolly, "Cobra too costly for many," *Washington Post*, January 10, 2009.
[xi] 41 percent versus 70 percent.
[xii] "Against Consensus," by Timothy Noah, Slate, http://www.slate.com/id/2215825
[xiii] "When Coverage Fails," Community Catalyst, April 2009
[xiv] Ibid.
[xv] Figures come from Jeffrey Taylor, director, Oakhurst Medical Group.
[xvi] "Healthcare Roundup," *BNet Healthcare*, April 15, 2009.
[xvii] Georgia Center for Health Policy – Georgia Healthcare Coverage Project, State Service Delivery Region One.
[xviii] Ibid.
[xix] Cenus.gov
[xx] Information provided by Floyd Medical Center.
[xxi] Ibid.
[xxii] According to the Georgia Hospital Association, this law has not changed since 1969.
[xxiii] Nonprofit Hospital Systems: Survey on Executive Compensation Policies and Practices, United States Government. Accountability Office, June 2006, http://www.gao.gov/new.items/d06907r.pdf.
[xxiv] Any hospital, because of the Emergency Medical Treatment and Active Labor Act (EMTALA), must take all without regard to ability to pay, not just 2 percent of the safety net hospitals. Many hospitals, though, often stabilize the patient, and then transfer them to another facility that does take a large amount of indigent and charity care patients, or to a health clinic.
[xxv] *US News and World Report*, http://www.usnews.com/listings/hospitals/6380950
[xxvi] 37 percent versus the state average of 65 percent
[xxvii] A drug-resistant "superbug," MRSA can be deadly, killing between 90,000 and 100,000 patients each year from hospital-acquired infections acquired at hospitals, a number more than the combined death toll of homicides and auto accidents. Serious infections acquired during surgery add approximately $57,000, on average, to hospital bills due to extended stay (almost 11 more days of care).
[xxviii] American Hospital Directory, at ahd.com
[xxix] Information provided by Floyd Medical Center.
[xxx] The operating margins were based on the Generally Accepted Accounting Principles (GAAP) model.
[xxxi] Different sources have different calculations for days cash on hand. For example, the American Hospital Directory calculates Days Cash on Hand as: (Cash on Hand + Market Securities + Investments) / (Total operating expense – depreciation expense) 365. Depreciation is already included in expenses, per line 44 of IRS Form 990, and for the calculation in the report, we removed that depreciation factor, replacing it with bad debt.
[xxxii] American Hospital Directory, Sample Indicators: http://www.ahd.com/sample_indicators.html
[xxxiii] IRS Form 990, Floyd Healthcare Management, FY2007.

[xxxv] Grady Memorial Hospital (Atlanta), Phoebe Putney Memorial Hospital (Albany), Memorial Health University Medical Center (Savannah) and The Medical Center (Columbus) were, respectively, the other four hospitals receiving the most amounts of funds.
[xxxvi] All information from the Georgia Department of Community Health.
[xxxvii] "From the President: Hospital Overcharging," *Journal of American Physicians and Surgeons*, Volume 11. Number 1. Spring 2006.
[xxxviii] All information is from Federal MedPar and/or HCRIS data.
[xxxix] For the 48 contiguous states and the District of Columbia, the Federal Poverty Level in 2009 for one person is $10,830. To calculate percentages, multiply this number by the percentage. For example, 325 percent of the Federal Poverty Level is $35,197.50.
[xl] Douglas Sams, "Commission will look for trauma care funding," *Atlanta Business Journal*, June 1, 2007.
[xli] In June 2008, the state legislature approved a one-time infusion of $47.7 million to the trauma network. In 2009, Gov. Sonny Perdue signed into law a funding mechanism for the trauma network that penalizes drivers who are ticketed for speeding more than 85 miles an hour on interstate highways and four-lane roads. The $200 fine, which is in addition to the original speeding fine, is expected to bring in approximately $23 million a year for trauma centers. The law takes effect January 2010 and, in July 2010, the law will also increase license reinstatement fees for residents who have repeat speeding charges on their record. It is immediately unclear how this money will be dispersed to trauma facilities throughout the state and how the amounts given to each facility will be determined.
[xlii] http://ethics.georgia.gov/
[xliii] The Honest Leadership and Open Government Act of 2007 amends a portion of the Lobbying Disclosure Act of 1995 to require that all lobbying activity be made available online to the public.
[xliv] Lobbying Disclosure Act Database http://soprweb.senate.gov/index.cfm?event=submitSearchRequest