Date: March 30, 2026
To: Board of Directors NRMC
From: Jason McCormick. CRO and Interim CEO
Re: Governmental Hospital vs Not-for-Profit Hospital

There are several advantages to being a governmental hospital such as a city, county or district hospital, vs a Not-for-Profit (NfP) hospital. Listed below are the types and differences. Following that explanation there is a section that describes the three forms of government hospital in Missouri.

Governance & Legal

- Ownership of a governmental entity is clearly defined in state statues for City, County and District hospitals with a clear service area and definition of the entity. NfPs have no clear ownership, service area or definition of the entity. This can result in CEO overreach and detrimental risk taking. As a governmental entity there is common ownership or shared financial ownership with all other governmental healthcare entities in the state as they are all collectively owned by the state.
- Board members of a governmental entity are either appointed, as in the case of a municipal or county hospital, or elected, in the case of a District hospital. Board members of NfPs are self-perpetuating with little accountability to the community for actions of the board.
- Legal Protections of governmental hospitals have sovereign immunity that provides limits of liability where as NfPs are exposed to full tort liability. This increases the cost of malpractice insurance.
- Transparency of governmental hospitals must follow open meetings and other transparency regulations. NfPs are private and not required to make meetings and other governance information public. They are not accountable to the public, only the IRS via IRS Form 990.

Financial and Funding

- Operating and Capital revenues: Governmental entities can obtain tax revenues for operational and capital needs. They may also obtain grants and low interest funding from federal agencies. NfPs may access grants and donations for operational and capital purposes. They must generally rely on retained earnings for capital but this is difficult as NfPs are required to provide community benefit in lieu of tax. Given the direction that the federal government is taking compensation for hospitals and medical professionals, it is quickly becoming necessary for local governments to provide tax revenues in order to ensure access to care in the community.
- Tax exemption: Governmental hospitals enjoy greater tax exemptions than NfPs. In some states they are equal, others they are not. NfPs are required to provide “community benefit in lieu of tax.” This is reported annually in the IRS Form 990 Schedule H. The federal government regularly considers dropping tax exemptions to NfPs that do not provide sufficient community benefit to equal the equivalent tax they would have paid as a for-profit entity.
- Debt financing: Governmental hospitals benefit from lower interest rates as they can issue municipal bonds. NfPs issue tax exempt bonds which often have higher interest rates than municipal bonds.
- Donations: Governmental entities have some barriers on direct donations. They often have a separate NfP Foundation. NfPs can accept directly donations but they usually have a separate Foundation.
- Banking: Deposits of governmental entities at banking institutions are fully collateralized where NfPs are covered only to FDIC limits of $250,000 per bank. State and federal laws prohibit banks from requiring Municipal and NfPs from signing agreements that allow lenders to automatically offset debt payments from Medicare payments. While this protection is provided to both entities, state law provides a higher level of protection to governmental organizations. This is important when an entity is in default of debt covenants.
- Collaboration: Governmental entities are able to collective bargain for compensation from payers and the purchase of equipment and buildings as they are collectively owned by the state. This is achieved

through the formation of a Clinically Integrated Network (CIN). Individual hospitals within NfPs are often prohibited by the FTC from collective bargaining for compensation from payers. Governmental hospitals access group purchasing contracts for supplies and medications the same as NfP hospitals. Governmental hospitals may access government contracts as well.

- Sale or dissolution: For a governmental entity, it requires public process. This gives some level of protection and leverage to the entity in a debt default situation. Lending institutions are more likely to work with the entity to improve operations than to foreclose. NfPs have some level of legal process but it is far less than a governmental entity.

Billing Collections and Compliance

- NfPs are required to follow much more strict and extensive collection regulations. These rules are known as IRS 501R. They include the performance of a community health needs assessment, providing more charity care and being more lenient in bad debt collections. All of these requirements cost the entity more in operating and consulting costs. Governmental organizations may choose to follow them.

Operational Considerations

- Recruitment. NfPs have some advantage in this area. While both types of entities can recruit physicians, providers and nursing staff using student loan repayment programs offered through the National Health Services Corp., NfPs can offer some level of student loan repayment to other professions in the organization who have paid on time their student loans for a certain period of time. Once the requirement is met the balance of the student loan, about 25% of the original student loan, is forgiven.
- The items noted above impact the operations of the organization as they have more access to capital at lower costs and lower cost of operations due to protections afforded to a governmental entity.

Summary:
The next twenty years will be the most trying for the healthcare industry. The federal government's plan to preserve the Medicare and Social Security trust funds is to mandate levels of care while decreasing reimbursement. Year-over-year mandatory cuts have already been put into place. In order for rural communities to have access to care in their community it will require that the entity has local tax revenue and other protections afforded only to governmental entities.

Single vs multihospital systems, are there economies of scale?

The short answer is no. There are no economies of scale for larger hospital systems. Federal and state law defines how much space is required for inpatient rooms and how many staff are needed per number of patients. Large hospital systems have large bureaucratic leadership structures. These overhead costs must be allocated to facilities and departments. There is little benefit from centralized support services such as accounting, billing, quality, risk management and so on. It's better to have staff in the facility close to operations. In small hospitals, staff may have multiple responsibilities due to the low volume of issues, but they also have a better grasp of the big picture while maintaining access and ability to create change in the organization as they work in the facility and live in the community. Large hospital systems are constantly seeking growth in order to cover the raises of top level executives. The only fat left to cut out of hospitals as the federal government cuts compensation is the bureaucracy. Small, governmental hospitals often have lower total administrative costs as the organization is flatter and is governed by a volunteer board. Leadership is able to connect with and make a difference in employee engagement and patient satisfaction.

Large systems that need to cover the cost of overhead must resort to dummying down leadership in local facilities. They strip the organization of talent at the local level. They also close services and centralize them

to the mother ship. Local communities are left with basic services and limited leadership support. They struggle financially and are often closed due to not being financially viable. See Fort Scott as an example.

In Missouri there are three forms of governmental ownership. They are:

- City, (Chapter 96)
- County, (Chapter 205)
- District, (Chapter 206)

A City or Municipal hospital is governed partly by the City Council appointed board and the City Council. Funding is a sales tax or appropriation from the general fund. The City Council may authorize the issuance of Bonds. The service area is limited to the City.

A county hospital is established by the county with voter approval. The County Commissioners appoint the board. Taxes are county wide. Bonds may be issued with voter approval.

A district hospital is created by voter approval. It is governed by a 6 person elected board from districts in the service area. Boundaries are defined in the ballot measure and are flexible. They may range from within a portion of the county to across county lines. Powers include the ability to levy a tax, issue bonds, own and operate a hospital, acquire properties and expand facilities.

Hospital districts are considered the better form as they are:

- Regionally flexible
- Governance is independent of other political bodies
- They demonstrate stronger long-term financial structure
- They are better suited for modern healthcare systems
- They facilitate regional growth, which provides more access to care and increased operational revenues
- City and County hospitals in Missouri have been converting to Hospital Districts.