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***David Stokes is a policy analyst at the Show-Me Institute, which promotes market solutions for Missouri public policy.***

# TESTIMONY

April 2, 2013

## ALL OPTIONS SHOULD BE ON THE TABLE FOR NORTH KANSAS CITY

***By David Stokes***

***Testimony Before The Missouri Judiciary and Civil and Criminal Jurisprudence Committee Regarding Senate Bill 443***

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### **To the Honorable Members of This Committee**

Ladies and gentlemen, thank you for the opportunity to testify today. My name is David Stokes and I am a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research that the Show-Me Institute has conducted and reviewed regarding local government control of infrastructure.

The number of government-owned and operated public hospitals in the United States has declined dramatically over the past three decades. There were almost 2,000 public hospitals in the U.S. in the 1970s. There were only 1,045 public hospitals by 2011, and the trend is continuing for many of the same reasons North Kansas City is considering changing its hospital operational structure. Like the U.S. Postal Service, the model of a government-owned and

operated public hospital facility is simply not nearly as effective as it used to be. There may be substantial public concern and political opposition to changes in hospital operations, but that will not change the long-term economic outlook of public hospitals.

This bill will impose impediments to North Kansas City trying to determine the best long-term option for its hospital. This bill would be a very dangerous precedent to set or expand. For example, several major Missouri airports are owned and operated by cities but are located outside the city limits. While operating rules have often included those other cities and counties, nobody has seriously questioned the city’s ownership of the airport.<sup>1</sup> I think it would be very dangerous for airport planning and operations if there was a risk that ownership could be quickly removed from the city. This hospital is no different.

While the city of North Kansas City is considering many options, the fears of privatization are driving this controversy.

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As with many privatization efforts, the fears are overstated. The Kaiser Foundation found in a 1999 study of public hospital ownership changes that, “in most instances, access to care for low-income patients has been preserved after conversion and teaching programs have not been cut.”<sup>2</sup> A 2001 study for the National Bureau of Economic Research concluded: “In many respects, the empirical evidence from hospital conversions is reassuring. . . . On the whole, hospitals’ missions appear to be preserved post-conversion.”<sup>3</sup> The studies note that the government should carefully negotiate the contracts and monitor the operations after the sale to ensure compliance with public goals and to protect the public interest. Missouri law already requires the state attorney general to review and approve any hospital sales, as it did when Sweet Springs, Mo., sold its hospital to a for-profit company in 2009.<sup>4</sup> No more state involvement is needed.

North Kansas City officials deserve credit for launching a careful effort to investigate the best options for the city. They are not doing this as part of a fire sale, nor are they doing this as part of a secret plan. However the city decides to move forward, limiting the city’s options has no real benefit. If residents and voters do not like North Kansas City officials’ ultimate decisions, they have numerous ways to send that message. Furthermore, there is nothing wrong with North Kansas City making money off the sale or transfer of the hospital if that is what it chooses to do. That money would not disappear in a sinkhole — it would be invested back in the city or returned to city

taxpayers via lower tax rates. In particular, if a for-profit hospital took over operation, the tax base of the city would be greatly enhanced. It is not in the best interest of taxpayers to facilitate a method to remove the hospital from city ownership without compensation.

North Kansas City should not be expected to hold back against a nationwide trend toward making major changes in how public hospitals are operated. Whatever the best option for North Kansas City is, officials should take it. Prior to the 1980s, Saint Louis city and county each operated several major public hospitals. They did not address the changes in hospital economics by transferring ownership or privatizing the hospitals; they simply closed all of them. I know absolutely nobody wants to see that happen, but by limiting North Kansas City’s options, the state would be doing the city and its residents no favors.

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## NOTES

<sup>1</sup> Columbia and Saint Louis, to give just two examples.

<sup>2</sup> “Privatization of Public Hospitals.” Kaiser Family Foundation, January 1999, page 9.

<sup>3</sup> Sloan, Frank. “Hospital Ownership Conversions: Defining the Appropriate Public Oversight Role.” National Bureau of Economic Research, January 2002, page 163.

<sup>4</sup> Press release from the Missouri Attorney General’s office dated February 2, 2009.



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