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BILL ANALYSIS

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Senate Bill 1055 (as introduced 5-26-22) *(Senate-passed version)*
Sponsor: Senator Wayne Schmidt
Committee: Health Policy and Human Services

Date Completed: 6-9-22

CONTENT

The bill would amend Section 305a of the Municipal Health Facilities Corporations Act to allow the board of trustees of a municipal health facilities corporation or a subsidiary board to restructure the corporation or subsidiary corporation as a nonprofit corporation subject to the Nonprofit Corporation Act if both of the following conditions were met:

-- The corporation or subsidiary corporation was located in a county with a population of more than 5,000 and less than 7,500 as of the most recent Federal decennial census.[1]
-- The restructuring was completed before June 30, 2024.

The restructuring would have to comply with the requirements of Section 305a (described below), applicable licensing and other regulatory requirements, and the requirements of the Nonprofit Corporation Act.

MCL 331.1305a

BACKGROUND

The Municipal Health Facilities Corporations Act authorizes a county, city, or village to incorporate a public hospital or other health facility, whose property and income are exempt from State and local taxation. Public Act 331 of 2010 added Section 305a to the Act to allow a municipal health facilities corporation or subsidiary corporation to be restructured as a nonprofit corporation. When a restructuring takes effect, the restructured corporation or restructured subsidiary corporation is considered to be the same entity that existed before the restructuring and has all of the liabilities of the restructuring corporation.

In order to restructure a municipal health facilities corporation or subsidiary corporation, the board of trustees or subsidiary board must adopt a plan that includes the terms and conditions of the restructuring, and the proposed articles of incorporation and bylaws that are to govern the restructured corporation. The articles and bylaws must comply with the Nonprofit Corporation Act. The restructuring of either a corporation or a subsidiary corporation must have the prior majority approval of the applicable local legislative body. The restructuring of a subsidiary corporation also requires prior approval of the parent company's board of trustees.

[1] The counties that meet these population criteria are Luce and Ontonagon, according to the 2020 United States Census.

If the restructuring plan is approved, the corporation or subsidiary corporation must file the articles of incorporation with the Department of Licensing and Regulatory Affairs. The restructuring is effective on the effective date of the articles of incorporation under the Nonprofit Corporation Act.

Public Act 331 of 2010 allowed the restructuring of a municipal health facilities corporation in a county with a population of more than 40,000 and less than 44,000, as of the 2010 Federal decennial census, if the restructuring was completed before July 1, 2012.

Public Act 45 of 2016 amended Section 305a to allow the restructuring of a corporation located in a county with a population of more than 24,000 and less than 30,000, as of the 2010 Federal decennial census, if the restructuring is completed before June 30, 2017.

More recently, Public Act 148 of 2017 amended Section 305a to allow the restructuring of a corporation located in a county with a population of than 45,000 and less than 60,000, as of the 2010 Federal decennial census, if the restricting is completed before June 30, 2018.

Legislative Analyst: Stephen P. Jackson

FISCAL IMPACT

The State, through its Medicaid program, achieves General Fund/General Purpose (GF/GP) savings through a program involving publicly owned hospitals, known as "certified public expenditures". These expenditures reflect uncompensated care provided by public hospitals. The State then receives reimbursement from the Federal government that equates to the Medicaid match that the State would have received had the uncompensated care been covered by Medicaid. The program leads to State savings of roughly $54.0 million GF/GP each year. Conversion of a publicly owned hospital to nonprofit status would reduce the State's GF/GP savings from this program, proportional to the ratio of uncompensated care performed by the given hospital to uncompensated care performed by all public hospitals. Small public hospitals, such as those eligible for restructuring under the bill, represent only a few hundred thousand dollars of these savings.

The bill could have a positive fiscal impact on the affected local government. Conversion of a public hospital owned by a city, county, or other local entity to nonprofit status would lead to local savings if the local government is subsidizing the hospital's operation or if the new owner paid off costs incurred by the local government.

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