United States General Accounting Office

GAO

Fact Sheet for the Honorable Cardiss Collins, House of Representatives

March 1991

COMMUNITY HEALTH CENTERS

Hospitals Can Become Centers Under Certain Conditions

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

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March 22, 1991

The Honorable Cardiss Collins
House of Representatives

Dear Ms. Collins:

This fact sheet responds to your request for information on whether hospitals that have closed or are at risk of closing can be converted into community health centers (CHCs). Specifically, you asked whether there were statutory or regulatory requirements that affect hospital conversions to CHCs. You also asked whether funds available to the Department of Health and Human Services' (HHS) Bureau of Health Care Delivery and Assistance (BHCDA) have been provided to CHCs to purchase or rent hospital facilities in order to maintain needed services that would be lost when hospitals close.

On December 18, 1990, we briefed your staff on the results of our work, which are summarized in this fact sheet and discussed more fully in appendix I.

Background

Section 330 of the Public Health Service Act authorizes HHS to provide grants to public and nonprofit private organizations to plan, develop, and operate CHCs in urban and rural areas for medically underserved populations.[1] CHCs must provide primary health services, such as physician services, diagnostic laboratory and radiology services, preventive health services, emergency medical services, and preventive dental care. In addition, CHCs may provide supplemental health services, such as hospital services, home health services, long-term care services, mental health services, and ambulatory surgical services, to support the primary health services. Services can be provided through either (1) CHC staff or (2) contracts or cooperative arrangements with other public or private entities.

In fiscal year 1990, the Congress appropriated $457 million to support 525 CHCs. BHCDA, which is part of HHS's Health Resources and Services Administration, administers the CHC grant program. In fiscal year 1990, BHCDA grants covered less than half of the CHCs' operating costs. The

[1] "Medically underserved population" means the population of an area designated by the Secretary of HHS as an area with a shortage of personal health services or a population group having a shortage of such services. The criteria governing the designation include the area's available health resources, the health characteristics of the population, and the economic and demographic factors affecting health care.

remaining costs were covered by funds received from Medicaid; Medicare; other third-party payers; patient fees; and state, local, and other sources.

Summary

Converting a hospital to a CHC is not prohibited by legal and regulatory requirements of the CHC program. Among the CHC requirements are that the converted hospital must (1) be located in an area designated as having a medically underserved population, (2) have a governing board whose majority represents groups being served by the converted hospital, and (3) be more economically feasible for use as a CHC than other available facilities.

We did not identify any instances in which BHCDA approved grant funds to convert a hospital to a CHC. BHCDA officials told us that they have not made grants for hospital conversions because the Bureau has lacked funds to support construction or acquisition of hospitals or other facilities. However, we noted that at least two CHCs, with the approval of BHCDA, had acquired and renovated closed hospitals in order to expand their services to needy individuals that may have been served by the hospitals before they closed. Although BHCDA approved the conversions, it did not provide funds for them. The costs for the conversions were funded by state and local governments and/or a loan obtained by the county.

Scope and Methodology

To determine whether legal and regulatory requirements allow failed or failing hospitals to be converted to CHCs, we reviewed the federal statutory and regulatory requirements governing CHCs. On this matter, we also obtained the views of officials of BHCDA in Rockville, Maryland, and the National Association of Community Health Centers in Washington, D.C. To ascertain if BHCDA grant funds were used to convert hospital facilities to CHCs, we obtained information from BHCDA, National Association and Public Health Service officials, and several primary health care associations representing individual states or groups of states. Our work was conducted between September and December 1990 in accordance with generally accepted government auditing standards.

We did not obtain written comments on this fact sheet. However, we did obtain the views of BHCDA officials and incorporated their views where appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 14 days from its issue date. At that time, copies will be sent to the Secretary of Health and Human Services, the Administrator of the Health Resources and Services Administration, and the Director of the Office of Management and Budget. We will make copies available to other interested parties upon request.

If you or your staff have any questions about this fact sheet, please call me on (202) 275-6195. Other major contributors are listed in appendix II.

Sincerely yours,

Mark V. Nadel

Mark V. Nadel
Associate Director, National
and Public Health Issues

Contents

Abbreviations

BHCDA	Bureau of Health Care Delivery and Assistance
CHC	community health center
HHS	Department of Health and Human Services

Hospitals May Be Converted to Community Health Centers

Statute and Regulations Do Not Preclude Hospital Conversions to CHCs

Although CHC legislation does not specifically address the conversion of hospitals, it does not preclude the use of CHC funds for that purpose as long as a grant application meets all of the CHC requirements of the statute and implementing regulations. Although a hospital conversion is not legally prohibited, there are requirements that could affect a conversion. Whether a specific hospital could be converted to a CHC would depend on many factors, including its location, its economical feasibility, and makeup of its governing body.

To qualify for CHC funds, a hospital must be located in an area designated as having a medically underserved population and accessible to the greatest number of persons who would be expected to use the services of the center. Additionally, the use of the hospital facility as a CHC must be financially more economical than the use of other facilities that may be available within the community.

Moreover, a hospital that is converted to a CHC would have to meet the governing board requirements of the statute and regulation. For example, the regulation requires a CHC to have a governing board of between 9 and 25 members whose majority demographically represent the population served. No board member may be a grantee employee, although the center director may be a nonvoting, ex officio member. The governing board for CHCs must be responsible for setting general policies for the center, selecting the services to be provided, scheduling the center's operating hours, and approving annual budgets and the selection of the center director.

BHCDA Has Not Funded Hospital Conversions

Although there are no legislative restrictions on the use of CHC funds for converting hospitals to centers, BHCDA officials told us that in no instances were grant funds approved for that purpose. One BHCDA official said that because the CHC program was severely underfunded, funds available for construction and acquisition of facilities were limited. The only new centers that BHCDA has funded in the past 2 years were to replace centers that had lost their funding for poor performance.

In conjunction with funding conversions, the BHCDA official also pointed out that converting a hospital to a CHC may be impractical, particularly in an urban area where hospitals tend to be large facilities primarily devoted to inpatient care. He also said that having more space than is needed would be wasteful, making for a more costly operation. Further, the condition of the building and its layout could make renovation costs

prohibitive. On the other hand, he said, converting a large building provides the potential for developing a one-stop shopping facility housing other organizations or providers, such as mental health services, self-help groups, public aid, social security, occupational health, and vocational rehabilitation.

Although we did not identify any grant awards to convert closed or failing hospitals to CHCs, we learned from BHCDA and state officials of two CHCs that had acquired space in a closed hospital to expand their service areas. These expansions were financed with funds obtained from state and local governments or through a loan.

In one instance, the Lafayette County Hospital in Lewisville, Arkansas, closed in 1989 due to declining business. In fiscal year 1990, BHCDA gave approval to CABUN Rural Health Services, a nonprofit corporation that operates several CHCs in Arkansas, to open a satellite facility in the hospital building in order to expand its service area. Arkansas provided the Lafayette County community board a grant of $622,000 to renovate and equip the CHC satellite facility and to cover start-up costs. This project is a combined effort of CABUN, the Lafayette County community board, the Office of Primary Care, the local health department, and the state primary care association. In addition to the CABUN CHC, other tenants will occupy the renovated facilities. These include the county's health unit; a Medicaid agency; and a Mental Health, Alcohol and Drug Abuse office.

In the second instance, the Warren General Hospital in Warrenton, North Carolina, closed in 1985 due to debts and low occupancy rates. The community feared that the closure would result in a loss of its physicians and only source of emergency care. As a consequence, HEALTHCO, a CHC in Soul City, North Carolina, expanded its services into Warrenton, where it obtained space in the Warren General Hospital and was renamed the Vance Warren Comprehensive Health Plan, Inc. The CHC shares the hospital facility with the local health department. The estimated cost to renovate the hospital building to accommodate the CHC and the health department was $1 million. To finance this cost, the county provided $200,000, obtained a Farmers Home loan for $500,000, and received the remaining $300,000 from the state.

Observations

Although there are no federal legal barriers to converting hospitals to CHCs, the use of the conversion option depends on whether the hospital can meet the legal and regulatory requirements of the CHC program. The use of any funds for conversions is left to the agency's discretion. For

hospitals that meet the requirements, the limited CHC program funds for facility construction and acquisition could restrain conversions unless CHCs are able to obtain funds from other sources.

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