

# Hart County Hospital Authority

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Hart County Board of Commissioners  
600 Chandler Street  
Hartwell, GA 30643

Dear Commissioners:

You have asked that the Hart County Hospital Authority respond to recent questions you have received regarding the closing of Hart County Hospital. Since we have been unable to meet with you formally, we decided to provide you with this letter, which will answer those questions which have been forwarded to us.

## **Recently Asked Questions of the Hart County Hospital Authority:**

1. Who will own the former Hart County Hospital building now that it is closed?

Right now it is Ty Cobb Healthcare System, Inc.

2. How will the former Hart County Hospital building be used in the future?

As the owner of the property, Ty Cobb Healthcare System, Inc. has the right to use it themselves or to convey or lease it to a third party. Currently, the kitchen is being used to prepare meals for the Hartwell Health Care Center, a Nursing Home on Cade Street, a portion of the facility is being used for a new Urgent Care Center and another portion is being used as an intake facility for laboratory tests. The Authority is aware that the current owner is using its best efforts to secure a new tenant for the building which could bring a number of new jobs to the community.

3. Will the former Hart County Hospital property now be taxable for ad valorem purposes?

This is not a question for the Hart County Hospital Authority, but rather the Hart County Board of Assessors.

4. Who will own and operate the new hospital?

The new hospital was financed primarily with revenue bonds issued by Franklin County and the Franklin County Industrial Building Authority which are secured by a lease of the facility by a group of private investors, mostly physicians who will have offices in the new medical office building which is attached to the new hospital. In addition to the lease, these investors contributed substantial private equity to the construction project. Ty Cobb Healthcare System, Inc. will be in charge of the day to day operations of the new hospital. The records pertaining to the entire transaction are on file with the Franklin County Superior Court Clerk's Office.

5. Who will own the Certificate of Need (CON) for the new hospital?

Ty Cobb Healthcare System, Inc. applied for and obtained a new CON from the Georgia Department of Community Health. Records pertaining to this proceeding, which was concluded in the summer of 2010, are available from the Georgia Department of Community Health.

6. Why was Hart County Hospital closed?

The answer to this question lies in the circumstances surrounding the difficulty in maintaining rural hospitals, not only in Georgia but throughout the country. The short answer is simply economics. It was no longer financially feasible to operate either or both Hart County Hospital or Cobb Memorial Hospital. The long answer requires re-visiting the rationale for the original lease that was signed seventeen (17) years ago in 1995.

In 1994, Hart County Hospital was in trouble: It was apparent that if significant changes were not made soon and if additional funding could not be obtained, that it would most likely be closed. The Authority could not obtain necessary financing from borrowing or from local tax funds.

In an effort to forestall what, seventeen (17) years later has become the inevitability of its closing, the Authority sought proposals from hospital operations from all over the southeast. These proposals were for the lease and/or purchase of the Hart County Hospital, including its Certificate of Need (CON). For those who may be unfamiliar with CON's, these are licenses granted by the state to ensure that healthcare resources are fairly distributed to areas which need them the most and can also show financial viability. The state's interest is motivated not only by quality concerns but by financial concerns as well. The state, through its Medicaid and other programs, is a major consumer of health services from health providers in this state, including hospitals.

In response to its request, the Authority received five (5) proposals for the purchase and/or lease of the Hart County Hospital facility. It was made clear to all that the proposals would require not only that the hospital remain open but that it would continue

to offer the same services then being offered. The lease/purchase proposed would also require that such a purchaser or lessee would invest money in the improvement of the aging facility and in the recruitment of additional physicians and specialists to Hartwell and Hart County. Continued access to care was the most important consideration.

The proposals and the companies making the proposals were reviewed, investigated and considered. Ty Cobb Healthcare System, Inc. appeared to be the best choice. Its proposal was for a long-term lease with a short-term "out" clause if either party became dissatisfied.

As time passed, the Authority was pleased with the new relationship, as Ty Cobb did everything it had agreed to do.

The lease was substantially amended in 1999 in order to allow for Ty Cobb to borrow the funds necessary to consolidate its debts and provide funds for the continued improvement of the Hart County Hospital facility, which ultimately resulted in the construction of a new operating room and emergency room. The Authority had identified this as a critical need and both parties believed that these improvements would assist in the efforts to recruit new physicians, particularly specialists, to the community.

Utilization of a healthcare facility such as a hospital by the local community is vital to its ability to survive. Despite the "build it and they will come" theory and an excellent existing medical staff, the facility continued to struggle financially.

The payor mix of utilization is of critical importance to a hospital's financial success, even though a local, non-profit hospital's financial goal is to earn only enough to pay its bills, maintain the highest quality facility and service and provide enough reserve to finance future needs. What many in the public do not know is that neither Medicare nor Medicaid pays enough to even cover the cost of providing care to a patient. This means that private insurance and private pay (no insurance) must make up the difference. Collections for private pay patients are about 2-3% of what is billed, not even as good as Medicare or Medicaid. It is easy to understand that if your patient mix is heavily weighted with those categories of patients who do not pay enough to cover costs of care, even breaking even can become a difficult proposition. This is probably the number one problem for rural hospitals in Georgia, as no fewer than 16 hospitals have recently closed in Georgia. It should also be recognized that many rural counties in Georgia have no hospital at all.

The Hart County Hospital numbers for 2006 through 2011 tell the story: Occupancy rates were 30.5% in 2006, but dropped each year to a low of 8.3% in 2011. Annual income fluctuated as follows: 2006, a loss of \$1,002,171; 2007, a loss of \$847,071; 2008, a loss of \$1,265,437; 2009, a loss of \$3,611,093; and 2011, a loss of \$2,758,335. These losses alone total \$12,066,846. Indigent and charity care over the same period totaled \$8,570,000 for Hart County Hospital, while self pay (uninsured) charges totaled \$22,400,000. These losses were an unavoidable consequence of the current system of

healthcare, which most observers throughout the country believe to be in need of substantial change and improvement.

In 2007, Ty Cobb recognized the trends in healthcare in general and in small rural hospitals specifically. Small rural hospitals in Georgia and other states were finding it more and more difficult to even make payroll. Some counties began supplementing losses, some of comparable size to Hart County in amounts of as much as \$500,000 per year in local tax dollars. Since the inception of the lease in 1995, the Authority met with Ty Cobb on a monthly basis, reviewing how Ty Cobb's obligations under the lease were being met, the financials, facility utilization and the issues surrounding the operation of the hospital in general as well as the trends in local healthcare.

The governor's office also recognized the problem facing rural healthcare providers, particularly small, rural hospitals, and adopted a plan to encourage regionalization and consolidation to combine existing facilities. Ty Cobb applied for and received a grant from the state to employ expert consultants to conduct a study of how this could best be accomplished in an effort to save local access to hospital care in the future.

Ty Cobb committed additional resources to the study and the final recommendation was to combine the two CON's of Cobb Memorial Hospital and Hart County Hospital and build a new hospital which would be located in a service area demographically centralized as to population trends.

Ty Cobb also carefully studied its own financials and those of Hart County Hospital and determined that neither Hart County Hospital nor Cobb Memorial Hospital, standing alone or together could survive very far into the foreseeable future. This reality was also apparent to the Authority members who regularly attended the monthly meetings, analyzed the financials and used their own information, common sense, and judgment regarding utilization and community trends in healthcare. The Authority estimated that to "take back" Hart County Hospital would have cost several millions of dollars of money that neither it nor the County had. It was also apparent to the Authority that burdening Hart County taxpayers to underwrite continued hospital operational losses (which had grown significantly in a short period of time) was not an option. For thirteen (13) years, the Authority had, through the lease, been able to save and keep open Hart County Hospital, providing care and services to the public, including many indigent and charity patients, without any direct contribution of county tax funds. It was clear to all who had studied the issue what course of action was necessary.

Reluctantly, like a patient struggling with a decision on a course of treatment for a serious and likely fatal diagnosis, the Authority agreed to negotiate what is now referred to as the Third Amendment to the original lease agreement.

Among the issues or requirements related to the Third Amendment were:

1. Hart County Hospital would not close unless Cobb Memorial Hospital also closed;
2. Hart County Hospital would not be closed unless and until a new, replacement hospital was built and ready to open;
3. that the new hospital would be located within a fifteen (15) mile radius of both Hart County Hospital and Cobb Memorial Hospital;
4. that Ty Cobb would have the right to negotiate with any third party for the right to build the new hospital, but if an agreement could not be obtained or an application for a new CON could not be filed before a certain period of time, the Third Amendment would terminate and the parties would revert to the terms of the Second Amendment; and,
5. that if the new hospital came to fruition, the Lease between the Authority and Ty Cobb would be terminated and the financial accounts between the two (2) entities settled.

Upon execution of the Third Amendment, Ty Cobb began soliciting proposals from companies involved in healthcare projects from around the country. Fifty (50) companies were specifically asked to respond. There were seventeen (17) responses of which two (2) had firm commitments to the construction and a consolidation plan. Of the two, the better proposal came from a group of doctors in Gainesville who said that they would raise the money to build the hospital if Ty Cobb would operate the new hospital. Note that Cobb, prior to the Third Amendment, had investigated the possibility of building and operating the new hospital on its own, but found that it did not have sufficient finances or the ability to borrow the more than \$50 million it would take for construction of a new hospital.

A part of the Third Amendment reads as follows:

“The parties acknowledge and agree that the current financial, regulatory and political environment encourages the consolidation and regionalization of acute care hospital services; smaller, more efficient and more technologically advanced inpatient acute care facilities; and the provision of healthcare items and services on an outpatient and sub-acute basis. In this environment, a long-term strategic plan which contemplates the construction and development of a new, state-of-the-art acute care hospital facility in the Hart/Franklin County area, and the corresponding closure of the Hart County Hospital and Cobb Memorial Hospital, is the most attractive option to ensure that an acute care hospital will continue to operate in the Hart and Franklin County areas, and that the citizens of Hart and Franklin Counties will continue to have access to high quality, state-of-the-art inpatient and outpatient hospital services.”

With considerable effort, Ty Cobb was able to obtain the new CON for the project, the doctors' group was able to secure financing and the new hospital has been built.

All of the conditions under the Third Amendment which was signed effective June 13, 2008, for the closing of Hart County Hospital were met to the satisfaction of the Authority, and all that remained necessary on June 1, 2012, was the execution of the Lease Termination Agreement and the settlement of accounts. That settlement called for the transfer of the Hart County Hospital building and hospital assets to Ty Cobb Healthcare System, Inc. It provided that Ty Cobb would pay to the Authority the sum of \$1,347,665 over a period of five (5) years and the Authority would be relieved of its obligation to pay Ty Cobb for the improvements made and losses sustained by Ty Cobb which was an obligation of the Authority under the original lease agreement. Accountants calculated this obligation to be no less than \$11,759,000 in 2008. By the time Hart County Hospital actually closed, the figure was much higher.

In sum, had the Authority and Ty Cobb not shown the vision and leadership for this bold and innovative endeavor, such failure to act would most likely have resulted in no hospital at all in either Hart or Franklin Counties in the future.

What we now have is a new state-of-the-art hospital facility just a few miles from where the existing hospitals originally were located. It has brought our community more healthcare choices than ever before.

We have a variety of new specialists nearby. Almost all of the existing jobs were saved. A new hospital of this caliber will bring and support economic development to the entire region. Overall access to health care is vastly improved. A twenty-four (24) hour flight service is located at the new hospital, something that we would never have had without this project.

The Authority is committed to the success of the new hospital, the Authority feels invested in the new hospital as a stakeholder and hopes that the citizens of Hart County can adopt it as its own.

7. What did Hart County get in return for the loss of its Certificate of Need and building?

This answer is adequately explained in the reason for the closing, but a bullet-point answer is:

- Satisfaction of all existing liabilities created over 17 years under the lease.
- \$1,347,665.
- A new, state-of-the-art hospital facility located within 15 miles of the old Hart County Hospital, with expanded services.
- Better access to physician specialists.
- Twenty-Four (24) hour, seven (7) day access to Air Methods emergency helicopter services located on the new hospital grounds.
- Transfer of a government-sponsored business activity and the attendant financial risks to a private entity.

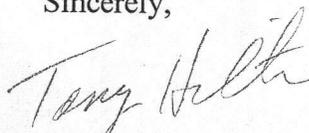
- Saving substantial ad valorem tax dollars which would have been necessary had the Authority been able to keep Hart County Hospital open.

8. Can we use the \$1,347,665 to build a new emergency room?

The short answer is no, because emergency rooms are never free-standing, they are attached to and a part of a hospital facility. The long answer is more of a statement on how emergency use is rendered now. It is far more important that a qualified first responder get to an emergent patient as quickly as possible, rather than for the patient to get to a hospital emergency room. Hart County has an excellent Emergency Medical Service which should give us all comfort. On top of that, Hart County citizens have many choices for emergency healthcare once Hart County EMS becomes involved through its E-911 service. EMT's can and will take an emergent patient to the facility which will best serve the patient's needs. And now, with Air Methods helicopter service so closeby, the time in getting to a trauma center, like Augusta, Greenville, or Grady has been substantially reduced.

The Authority's next meeting is Tuesday, July 17, 2012, at 5:00 PM at the upstairs meeting room of the Hart County Adult Learning Center, 110 Benson Street, Hartwell, GA. At that meeting, we plan to begin discussions regarding the future of the Authority and what its role in local healthcare is likely to be in the future. If you have additional questions, please let us know.

Sincerely,



Tony Hilton  
Chairman