

Florida's Fragmented Hospital Taxing District System in Need of Reexamination

Florida's hospital taxing districts, complete with the power to levy ad valorem (property) taxes, have been around for more than 80 years. These districts, originally created to address very important needs, have evolved over the years. Their traditional purposes of providing indigent care and ensuring access to hospital facilities are often no longer the main focus, as hospital districts expand their roles and compete with other non-tax supported hospitals.

Hospital districts have been subject to the same criticisms as other special districts in Florida: lack of accountability, mismanagement, escalating taxes, and expansion of purpose and power. Florida TaxWatch has been a proponent of a thorough review of all special districts¹. Hospital taxing districts appear especially overdue for a comprehensive re-examination.

According to the *Official List of Special Districts* maintained by the Department of Community Affairs, there are 32 active hospital districts in Florida, including six dependent districts and 26 independent districts, of which 16 are independent hospital taxing districts – those with the ability to levy ad valorem taxes. These 16 independent hospital taxing districts are the focus of this report.

Independent special districts, in contrast to dependent special districts, have governing bodies that are not under the control of a county or municipal board. Their budgets are not approved by any county or city government. Also, independent districts' millage rates are not included in a county or city 10-mill cap². While local governments create dependent districts, independent districts can generally only be created by legislative authorization. (There are, however, statutory provisions authorizing local governments to create special taxing districts for children's services, health and community development.) All independent hospital taxing districts in Florida were created by special acts of the Legislature.

The Evolution of Taxing Districts

Hospital districts were first created in the 1920s. While the very first districts were created to provide indigent care for county residents, many later legislative acts had the stated purpose of establishing hospitals for residents' benefit. There are far fewer hospital taxing districts now than there once were. Over time, many districts were dissolved when the hospitals were sold or

¹ Stan Bainter, [Who's Watching Florida's Special Districts](#), Florida TaxWatch, January 2007

² Counties and municipalities are constitutionally limited to 10 mills of property taxes. Dependent districts count towards that cap but independents do not.

transferred to the county and leased to managing corporations. Currently, there are 16 independent hospital taxing districts, serving just 12 Florida counties.

The first independent hospital taxing district created by a special act of the Legislature was the Halifax Hospital District (Volusia County) in 1925. The provisions of the act became common in future acts, including: creating a board appointed by the Governor; granting authority to build and operate hospitals; granting the power to assert eminent domain; issuing bonds payable from ad valorem taxes; allowing ad valorem revenue to be used for operating and maintaining hospitals; and providing that the facilities be established for the benefit of the indigent sick.

Many of the early special acts sought only to create county hospitals, not expressly create hospital districts. Beginning in the late 1970s, counties began to dissolve their districts and sell their hospitals or lease them to managing corporations. These transactions were not a problem for county hospitals created by local ordinance, but special districts needed legislative approval. In 1982, the Legislature enacted a law to allow any county, district, or municipality to enter into contracts or leases with non-profit corporations to operate their hospitals. The law was later amended to allow leases or contracts with for-profit corporations. This change allowed the districts to avoid the regulatory obligations of government entities such as competitive bidding and public records, and to enter into profit-making activities.

However, some districts chose to retain control in order to keep sovereign immunity, antitrust immunity, and the control of tax dollars. Beginning in the mid 1980s, these districts began getting the Legislature “to amend their charters to give them all the advantages of a private corporation without actually becoming one.”³

These changes launched a new era that allowed district hospitals to begin actively competing with private hospitals.

Hospital Districts Levy Nearly \$600 Million in Property Taxes

Hospital taxing districts take in a significant amount of property taxes from their citizens and businesses, and that amount is rising rapidly. In 2007, ad valorem revenue for the state’s districts totaled \$597 million, which is more than double (132% growth) from the \$257 million collected ten years earlier. These collections have risen 75 percent in just the last five years, from \$340 million in 2002. This compares to statewide population growth of 11.6% and inflation of 14.5% from 2002-2007.

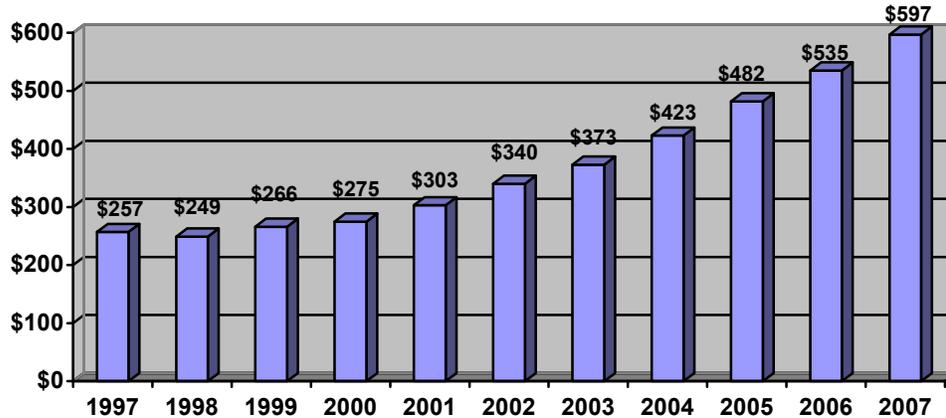
The ad valorem data come from the Annual Financial Reports districts are required to submit to the Florida Department of Financial Services. Not all districts are in full compliance. The data from two of the smaller districts that have sporadic reporting or levying of property taxes have been omitted from this analysis. Also, the analysis includes the Health Care District of Palm Beach County, which, while not technically a hospital district, levies property taxes to reimburse hospitals and doctors in the district for indigent care.

³ *A Study of Hospital Districts*, Florida House of Representatives, Committee on Health Care, February 1996.

Seven, or half on the 14 districts considered in this analysis, had property tax revenue that more than doubled in the five years from 2002-2007. Of these, the two fastest growing districts were the Citrus County Hospital District (603%) and the Sarasota County Public Hospital District (500%). The largest collection in 2007 belonged to the North Broward Hospital District (\$197 million) and the smallest was the Baker County Hospital District (\$789,000).

Ten Year Growth in Hospital District Property Taxes

Statewide 1997-2007 \$ in millions



Source: Florida TaxWatch and the Florida Department of Financial Services, February 2009.

Taxing Districts Are Just One Way Counties Fund Indigent Care

There are myriad ways that counties fund indigent care. Manatee County, for example, sold its public hospital and created a trust fund, and now uses interest earnings from the fund to pay indigent care costs.

A 2003 study by the Florida Office of the Attorney General examined three South Florida counties, each with very different ways of funding indigent care.⁴ Broward County has two separate hospital districts funded by ad valorem taxes. Miami-Dade does not have a taxing district, but uses local government funding (sales and property taxes) to help fund its local nonprofit hospital, Jackson Memorial Hospital. The Health Care District of Palm Beach County uses ad valorem revenues to reimburse any and all local hospitals for indigent care, similar to an insurance plan.

Citing the wide disparity in the financial trends of the hospitals in these counties, the report suggests a legislative study is needed to determine which method of using tax dollars for indigent care is the most effective, both in terms of taxpayer cost and meeting the needs of the indigent.

⁴ John deGroot, *Florida Hospital Financial Trends*, Florida Office of the Attorney General, January 2003.

There are Many Differences Among Hospital Districts

While there are different approaches that counties use to provide indigent care, there are also many differences among one of those approaches – the hospital taxing district.

The creation of hospital districts by one special act at a time, and the subsequent amendments of those individual establishing laws, have led to a hodgepodge of characteristics, powers and regulations. Most have boards that are appointed by the Governor, while some have elected boards; some have separate district and hospital boards. Districts have varying maximum millage rate caps. Some have management corporations and allow joint ventures. Other differences relate to residency requirements for indigent care, referendums for bonds, and authorized uses of ad valorem tax dollars.

Only five of the 16 independent hospital taxing districts have elected boards. The existence of appointed boards empowered with the ability to levy taxes raises questions of representation and accountability. Other concerns occur in districts that have the same board for both the district and the hospital, which could create potential conflicts of interest and may not be the best way to safeguard taxpayers.

Purposes of Hospital Districts Expanding

The traditional purposes of providing indigent care and ensuring access to hospital facilities are no longer the main focus of most hospital districts as they have expanded their roles and compete with other non-tax supported hospitals.

The 2003 Attorney General study found that between 1990 and 2001, the average daily uninsured population **declined** 38 percent for both the average non-profit and the average government-operated hospital. The uninsured population of the average for-profit hospital **increased** 7 percent. Over the same period, government hospitals recorded a 111% increase in profits (the average Florida hospital's profits rose 156%).

The report raised the public policy question: “What impact do the above trends have on the various tax and funding advantages Florida’s non-profit and tax-supported hospitals enjoy over the state’s for-profit hospitals?”

It also noted that Broward’s two hospital districts had **increased** tax revenue of 44% from 1995-2001, while the actual cost of charity care **declined** 28 percent. Also, the report noted that the two Broward districts reimbursed themselves for indigent care at much higher rates than Medicaid and Medicare, and questioned whether there was any incentive for the hospitals to qualify indigent patients for Medicaid.

Volusia County: Three Separate Hospital Taxing Districts

While only 12 counties have hospital taxing districts, some counties have more than one. Broward and Lake counties have two districts, while Volusia County has three. The existence of

three separate districts in one county, each with different laws governing them, raises some questions.

Volusia presents a microcosm of the differences in the state's hospital districts. The West Volusia Hospital Authority has an elected board, while Halifax Hospital Medical Center and the Southeast Volusia Hospital District have boards appointed by the Governor. And while the other two have separate district and hospital boards, Halifax does not. Indigent care funds "follow the patient" in West Volusia and Southeast Volusia – meaning they can reimburse providers that are not controlled by the district. Unless otherwise required by law or by agreement with the Volusia County Health Department, Halifax's ad valorem tax revenues can pay for indigent care only if provided at facilities in which the district owns or holds an ownership interest. Halifax's authorizing law also allows them to form nonprofit and for-profit corporations that can enter into joint ventures or other cooperative projects with third parties.

In the 1990s, two separate Volusia County task forces examined the county's fractured system and cited problems including excessive administrative and tax collection costs and duplication. Additionally, the districts were using tax dollars to pay for services that were eligible for Medicaid reimbursement and the districts were consistently collecting more tax dollars than they were spending on charity care. Volusia's cost for indigent care was the highest in the state.

A December 2007 article in the *Daytona Beach News-Journal* found that Volusia County property taxpayers paid \$65 million for indigent health care in 2006 — about \$30 million more than five years prior.⁵ (Florida TaxWatch research finds that the total ad valorem revenue for the three districts climbed to \$83 million in 2007.) The article says that although taxpayers pay for indigent care in some way in every county, their contributions vary significantly across the state. The per capita amount in Volusia County, the only Florida county with three separate hospital taxing authorities, was \$131 in 2006, as much as 20 times more than other similarly sized counties.

The newspaper also found that:

- Of the three Volusia districts, the largest amount of property tax revenue goes to the state's original independent hospital taxing district – Halifax Health;
- Halifax has the state's second highest hospital district millage rate and it makes more money than any similarly sized public hospital in the state;
- Halifax's net assets increased by 80% from 2003 to 2005; and
- Halifax spent \$2 million on a television ad campaign and spends 1.1% of its budget on marketing, twice the percentage of hospitals nationwide.

A subsequent article⁶ noted taxpayer dissatisfaction with the district's spending of more than \$350,000, without competitive bidding, to celebrate the groundbreaking for a 10-story patient tower.

⁵ Anne Geggis, "Halifax hospital emergency? Higher tax rates have groups up in arms," *Daytona Beach News-Journal*, December 2, 2007.

⁶ Anne Geggis, "Halifax Health party spending under scrutiny," *Daytona Beach News-Journal*, April 3, 2008.

The Expansion of Hospital Districts Raises Questions of Competition and the Proper Use of Tax Dollars

The Daytona Beach News Journal article points out that by using tax dollars to offset indigent care costs, hospitals like Halifax can put more money toward its quality of care. Added specialty services, such as the trauma center, the newborn intensive care unit and the pediatric intensive care unit, would not be possible without tax support.

The *News-Journal* quotes Halifax's Chief Marketing Officer: "The health care industry in Central Florida is very competitive, and many consumers can choose their health care provider. Our market research shows that people didn't know the breadth of service available here and didn't believe that a medical center of this caliber would exist in a market this size."

While creating a first class health facility with a wide range of services certainly benefits a district's residents, it raises questions about the true purpose of special districts, ad valorem taxation, and competition. Some districts have become major forces in their local health care markets.

As the report by the Florida House of Representatives Committee on Health Care stated; "Today many of these same publicly owned facilities co-exist with other private not-for-profit or for-profit hospital facilities. The question now is whether a governmental entity complete with the advantages of ad valorem taxing power, corporate flexibility, and antitrust protections should continue to participate in a competitive marketplace as a health care provider."⁷

Conclusion

Florida TaxWatch finds that hospital taxing districts can have a role in Florida's healthcare landscape and the funding of care for those who cannot afford it. However, it is apparent that a comprehensive review by healthcare experts, and follow-up by elected officials, is needed.

Florida TaxWatch has been a proponent of increased oversight for all special districts and has recommended a sunset review process for them. Hospital taxing districts seem especially overdue for such a comprehensive re-examination.

First, while keeping in mind that different counties have diverse and unique needs, the funding of indigent care should be re-evaluated with an eye toward better coordination statewide and increased uniformity. All current models should be compared to determine which method of using tax dollars for indigent care is the most cost-effective – considering both taxpayer cost and the needs of the indigent.

Each hospital taxing district, and the laws governing the creation of new ones, should also be examined.

⁷ *A Study of Hospital Districts*, Florida House of Representatives, Committee on Health Care, February 1996.

Florida TaxWatch finds that:

- Any board that can levy property taxes and set millage rates should be elected, not appointed;
- Hospital boards and tax district boards should be separate; and,
- Oversight of districts should be increased.

Other issues to be considered:

- Should indigent care dollars “follow the patient” – instead of only going to a single provider? Should all hospitals and providers in the district be eligible to share in reimbursement dollars? The Palm Beach County model, where rather than operating hospitals, the district simply reimburses all providers for indigent care, should be evaluated.
- Should tax districts have management corporations and joint ventures clauses?
- Should there be more than one hospital taxing district in a single county?

Florida’s hospital taxing districts have been around for over 80 years and they have evolved significantly since their original conception. Their traditional purposes of providing indigent care and ensuring access to hospital facilities are often no longer the main focus, as they have expanded their roles and now compete with other non-tax supported hospitals. Districts have changed, and so have, presumably, the health care needs of Florida. It is time to see whether the laws governing these special hospital taxing districts need to change as well.

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