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P3: An option for hospitals seeking capital dollars

Recently we became aware of the fact that a significant Midwest hospital is engaged in a Public-Private Partnership transaction: As reported in the “P3 Bulletin,” the Cook County Finance Committee (Chicago) will soon vote on awarding a contract for the redevelopment of the Old Cook County Hospital and excess real estate to Civic Health Development Group (CHDG). There are several equity members in CHDG, including MB Real Estate Services, Walsh Investors, Plenary Group and Chicago-based Granite Companies. The agreement will enable the reuse of the historic Old Cook County Hospital building. Upon completion, the project should enhance the hospital campus with new residential units, hotel rooms and additional commercial space. Reports indicate the private partner will invest approximately \$600 million in the redevelopment and will pay at least \$2 million in annual rent to the county (owner of the original hospital) over the term of the lease.

Since other hospitals are looking for new ways to monetize assets, finance facilities and improve operations, this example is helpful. It highlights so-called P3 (public-private partnership) or PP (public-public) transactions.

In a P3 transaction like this one, a hospital would enter into a long-term lease or concession agreement with a private entity, typically a concessionaire formed by investors seeking to gain steady income and a long term equity return from the P3 transaction. The lessee/concessionaire would then hire one or more operators to actually operate and manage the hospital.

In a newer variation of that, a PP transaction, the hospital would enter into a long-term lease or concession agreement with a public entity, typically a governmental unit or a qualified 501(c)(3) entity. That agreement is an acquisition of assets for “federal income tax” purposes, allowing the new owner of the hospital to issue or benefit from the issuance of lower interest rate tax-exempt debt. The new owner then would also hire one or more operators to actually operate and manage the hospital. There are some restrictions on

the fees able to be paid and earned by such operators compared to P3 transactions, but operators can still profit under these arrangements.

With low interest rates available in today's markets, any hospital or other healthcare facility considering alternatives to their existing financing and operating models should examine both types of programs. They can really help in distressed situations or where modernization of facilities is a priority.

Finally, there is a myth that a P3 or PP transaction puts the total control of facilities in the hands of private operators, who will over-charge the public and other stakeholders. Rate-setting authority in a properly structured transaction can be negotiated into the agreement and remain the responsibility of the original hospital administration or board. In other words, the hospital can own the assets (for state law purposes); participate in the control and major decisions regarding the ultimate management of the assets; and participate in the establishment of user rates, fees and charges. In short, a P3 or PP transaction is not a privatization.

We expect to see more P3 and PP transactions in the healthcare sector. If you have questions, please contact [David Rogers](#) or [Jason George](#).

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