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HealthVoices

Nonprofit Hospital Community Benefits

Issue 3, 2011

Approximately 82 percent of Georgia's hospitals are nonprofit entities, meaning these facilities have particular obligations to their communities due to forgone tax revenue. There are four taxes nonprofit hospitals generally are not required to pay: property taxes, state and local income taxes, sales tax and taxes on bond financing. Property taxes comprise the largest portion of a facility's tax exemption – about one-quarter. Because of this, a hospital's tax-exempt status has the most impact on the local communities in which it is located, and those uncollected tax dollars may have otherwise benefitted public schools, police departments and other government-funded services.

In exchange for those exemptions, federal law requires that communities receive from their hospitals certain programs and activities that promote health, healing and community wellness. These programs should respond to population needs and priorities indentified through a federally-mandated tri-annual community health needs assessment, which must include input from a variety of local stakeholders, consumers, nonprofit organizations, advocates and public health workers. These assessments will be required starting for tax years after March 2012.

From these assessments will come a blueprint for combating certain health challenges, and this plan should then be integrated into the hospital's infrastructure and implemented within the community. If the plan is well-designed and truly addresses local need, overall wellness will be promoted, and access to affordable, effective and quality care will be closer within reach for those who most need it.

But while federal law and Internal Revenue Service (IRS) regulations do dictate some aspects of community benefits, much is left to the discretion of the nonprofit hospital, including the determination of what amount of benefits the hospital should render to justify its exemptions. Currently, there is no Georgia law that directly addresses community benefits.

This issue of *HealthVoices* examines the potential impact of community benefits on Georgians, their hospitals and their communities.

A brief history of nonprofit hospitals and community benefits

First formed as almshouses in the late 1800s, hospitals provided to the poor a place to seek care in an era when most medicine was still practiced in the homes of self-paying patients. In 1894, tax exemptions were extended to these hospitals.[i] In 1956, the IRS issued what was then called the "financial ability" standard, requiring nonprofit hospitals to operate to the extent of their financial ability to provide service to those not able to pay for services rendered, and not exclusively for those who are able to pay.[ii]

The Social Security Amendments of 1965 created Medicaid and Medicare, and with their passage came concerns by hospital administrators that the primary reason nonprofit hospitals were originally granted their tax-exempt status – the offering of free or reduced-cost care – was now satisfied by the new public insurance programs. Because of this, in 1969, the IRS adopted Revenue Ruling 69-545, which set forth the community benefit standard.[iii] The ruling did not set forth any actual guidelines as to what constitutes a community benefit, nor did it establish any minimum standards of programs needed to justify an exemption.

The law has been left unchanged since then, though the health care industry itself has certainly evolved. Hospitals are now reimbursed, to some degree, for Medicaid and Medicare services, and private insurance has shifted its own reimbursement practices, all of which affect nonprofit and for-profit hospitals similarly. The impacts of these changes on hospitals vary greatly, as reimbursement rates and uncompensated care expenditures are largely dependent on patient profiles and community demograph-

ics, factors affecting both nonprofit and for-profit hospitals. The landmark health law known as the Patient Protection and Affordable Care Act (ACA), which passed in March 2010, implements crucial consumer protections in regards to billing, collections and alerting patients that financial assistance is available. The law also requires hospitals to assess and address the needs of their communities through the tri-annual health needs assessments.

The markers of a good community benefit program

The most fundamental way a nonprofit hospital can begin to return the value of its tax-exemption to the community is through direct financial assistance to low-income patients, many of whom represent high disparity populations. Additionally, improved patient-hospital communication fosters valuable insight into the challenges these patients face and results in more patient-centered hospital care and policies.

In addition, a well-designed benefit programs should also go beyond the hospital walls and into the community itself. These programs should be locally-minded, resulting in improved access to health services and better health for all residents of a community; such programs should also advance the health knowledge of a community and/or demonstrate the hospital's charitable purpose. These benefits should particularly target those who may face unique challenges when attempting to access affordable and effective care. Through screenings with appropriate follow-up care, health conditions can be more affordably treated in settings outside the emergency room, saving money and keeping individuals in better health.

Larger public health concerns – such as obesity, diabetes and hypertension – are able to be systematically addressed, which would ideally lead to a healthier community for all residents, both those who are insured and those who are not.

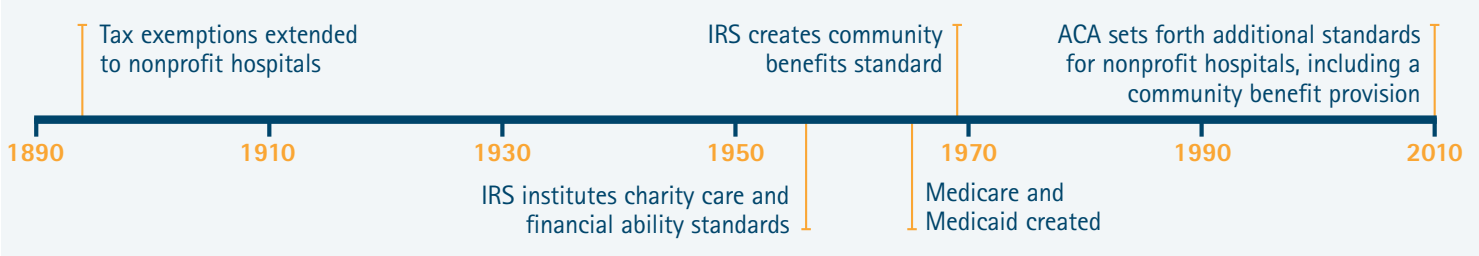
Models of good community benefit programs can be seen throughout the state. For example, Northeast Georgia Medical Center in Gainesville provides a robust offering of programs ranging from a high level of indigent and charity care for qualifying patients to fiscal support for a local low-cost clinic. St. Joseph's Hospital in Savannah provides housing rehabilitation, GED testing preparation and tax preparation for low-income members of its community.

How hospitals determine the best programs for their communities

Hospitals should first define their "community" and identify the individuals and organizations who utilize the hospital's services. This will start with an examination of the hospital's patients, with particular attention paid to those who enter the hospital via the emergency room and do not have insurance. Additionally, a hospital's community should include those who live within a hospital's geographic reach but do not utilize that hospital's services due to certain barriers, including those unable to access primary or specialty care to even gain a referral into the hospital.

By definition, a well-designed community benefit program responds to community need and health priorities that are determined in partnership with public health entities and other key stakeholders during the community health needs assessment process. *As set forth in the ACA, beginning in 2012, each nonprofit hospital must conduct a community health needs assessment at least once every three years and adopt an implementation strategy to meet the community health needs identified in such assessment.*[vi] This assessment must take into account input from persons who represent the broad interests of the community, including public health entities, such as a local health department. In short, hospitals do not have to create their own community health needs assessment in order to meet the new community benefit requirements. Instead, these facilities can build upon information and expertise already in place in the community, and can include current information already collected by public health agencies and/or nonprofit organizations.

The History of Community Benefits



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There are many opportunities for advocates and consumers within hospital community benefit programs, including activities that build the community. Per IRS standards, community building activities can include:

- *Physical improvements and housing*, which can include neighborhood improvement or revitalization projects and housing for low-income seniors.
- *Economic development*, which might mean programs to assist small business development in neighborhoods with vulnerable populations.
- *Community support*, including programs such as child care and mentoring programs for vulnerable populations or neighborhoods and violence prevention programs.
- *Environmental improvements*, including activities to address environmental hazards that affect community health.
- *Leadership development and training for community members* such as training in conflict resolution, cultural skills and medical interpreter skills for community residents.
- *Coalition building* may include participation in community coalitions and other collaborative efforts with the community to address health and safety issues.
- *Community health improvement advocacy*, which could mean efforts to support policies and programs to safeguard or improve public health, access to health care services, housing, the environment and transportation.
- *Workforce development*, including the recruitment of physicians and other health professionals to medical shortage areas or other areas designated as underserved.

How do we know if a hospital is doing enough?

In an effort to promote accountability and transparency, in 2008, the IRS issued a newly-revamped IRS Form 990 Schedule H, which captures crucial community benefits information in a more organized, comprehensive, easily-comparable and consistent manner. The IRS Form 990 is the yearly tax filing hospitals must make; before 2008, Form 990 did not require hospitals to report key community benefit information.

The revised Schedule H now requires hospitals to provide quantitative information about its programs and policies. Part I requests detailed information about a hospital's financial assistance and other community benefit programs, which is all to be reported at cost. Part II solicits fiscal information on community building activities, and Part III directly addresses the hospital's bad debt and collection practices, as well as its Medicare shortfalls. The final two parts asks for information on facilities and joint ventures. By providing this information, hospitals can better equip the government, patients, advocates and their communities with key information about crucial policies and practices, especially for those in states that do not have any laws pertaining to community benefits.[vii]

Approximately 17 states have some form of community benefits regulations in place; Georgia does not. Hospitals are required to report to the Department of Community Health their annual charity and indigent care expenditures, though this is a requirement of all hospitals, both for-profit and nonprofit. Texas is the only state that mandates that a specific level of community benefits must be rendered in order for a hospital to maintain its tax exempt status.

That said, in a March 2010 ruling, the Illinois Supreme Court upheld a 2004 Illinois Department of Revenue ruling that stripped nonprofit Provena Covenant Medical Center of its immunity from property tax, stating that the hospital did not provide enough charity care to justify that exemption.[viii] In its decision, the Illinois Supreme Court reasoned that providing free care is a key component of a nonprofit hospital's obligation to earn its tax-exempt status, as is the hospital's obligation to publicize that assistance. In August 2011, the Department denied property tax exemptions for three nonprofit hospitals for reasons similar to those in the Provena case and, in September 2011, the Department announced they would re-examine the exemptions of 15 more hospitals.[ix] Those examinations are currently on hold, pending legislative recommendations.[x]

From these examples comes the increasingly realization of lawmakers, hospitals and advocates that state law and local attention to these issues *does* matter. And while no other state, including Georgia, has made a similar effort to revoke the tax exemptions for nonprofit hospitals that offer inadequate charity care, heightened local scrutiny on nonprofit will likely only continue to increase.

Unless and until the IRS, state law or federal law mandates a level/quantity of community benefits that a nonprofit hospital must provide, along with penalties to be incurred for failure to meet such requirements, the question of what is a truly meaningful level of community benefit remains undefined in almost every state – potentially to the detriment of the communities served by such hospitals.

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Endnotes

i M.G. Bloche, "Tax Preferences for Nonprofits: From Per Se Exemption to Pay-For-Performance," Health Affairs, 25, no. 4 (2006).

ii "Nonprofit Hospitals and the Provision of Community Benefits," Congressional Budget Office, The Congress of the United States, December 2006.

iii Ibid.

iv "Community Benefit Report 2010," Northeast Georgia Health System.

v Per Saint Joseph's/Candler "In the Community" report, available at www.sjchs.org.

vi "New Requirements for 501(c)(3) Hospitals Under the Affordable Care Act," available at www.irs.gov.

vii A copy of IRS Form 990 Schedule H can be downloaded at www.irs.gov/pub/irs-pdf/f990sh.pdf.

viii M. Robinson and D. Mercer, "Illinois High Court: Hospital Shouldn't be Tax Exempt," Businessweek, March 18, 2010.

ix T. Jones, "Illinois Says Hospitals No Longer "Poorhouses" Shielded from Tax," Businessweek, Sept. 13, 2011.

x J. Oh, "Illinois Gov. Pat Quinn Holds State Decisions on Tax Exemptions," September 23, 2011.

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Healthcare Georgia Foundation is a statewide, private independent foundation whose mission is to advance the health of all Georgians and to expand access to affordable, quality health care for underserved individuals and communities.

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