

Charity Care and Other Community Benefits

Draft Briefing Paper
By Pat Murdo
Legislative Services
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Montana exempts from property taxes property used exclusively for nonprofit health care facilities.¹ As part of the study of health care access and delivery under Senate Joint Resolution No. 15, the Children, Families, Health, and Human Services Committee has heard from the following resources related to property tax exemptions² (one of the differences between for-profit health care providers and nonprofit health care providers):

- Lee Heiman, Legislative Services, on theories behind tax exemptions
http://leg.mt.gov/content/committees/interim/2007_2008/child_fam/assigned_studies/sj15nonprofittaxreport.pdf
- Jon Ellingson of the Attorney General's office and Larry White regarding an Attorney General's office report comparing Montana hospitals' charity care with tax exemptions
<http://www.doj.mt.gov/consumer/consumer/hospital/hospitalreport.pdf>
- the Montana Hospital Association, which provided information on community benefits and the new IRS Form 990(H), which will begin requiring hospitals to report on their community benefits (a copy is attached here)
http://leg.mt.gov/content/committees/interim/2007_2008/child_fam/assigned_studies/1_25olsen990form.pdf

Question for the Committee's Consideration:

Does the state want to set parameters on what can be counted as a community benefit, both to create commonality among the hospitals' community benefits and to gain some type of assurance that the community benefits are commensurate with the tax exemptions?

Some states already require reports regarding community benefits. Illinois, as a random example, has had a reporting requirement for community benefits since 1993, exempting government hospitals and adding options for community benefits not included in the national voluntary guidelines developed by the Catholic Hospital Association and VHA, an association of community-owned health care systems and their physicians.³ As of August, this year, a new

¹15-6-201, MCA. Governmental, charitable, and educational categories -- exempt property.

(1) The following categories of property are exempt from taxation: ... (e) property used exclusively for nonprofit health care facilities, as defined in 50-5-101, licensed by the department of public health and human services and organized under Title 35, chapter 2 or 3. A health care facility that is not licensed by the department of public health and human services and organized under Title 35, chapter 2 or 3, is not exempt.

²Another difference is that nonprofit healthcare facilities do not pay income taxes. Although for-profit health care providers have stated that they, too, provide charity care either by not charging some patients unable to afford care or by accepting less than their costs by accepting Medicaid payments, they cannot take offsets on their taxes for the charity care. One analysis is that doctors report income on a cash-basis. Therefore, they are unable to write off any amount that they bill and that insurance or Medicaid does not cover.

³The Illinois law, 210 ILCS 76/10, includes among community benefits the provision of language assistance services.

approach will require Illinois hospitals to separate charity care from other community benefits.⁴ A furor erupted in Illinois in 2006 when the Attorney General there proposed legislation that would have required hospitals to prove they were dedicating at least 8% of their annual operating costs to charity care for poor or uninsured patients. The bill had one do-pass as amended vote then disappeared into the House Rules Committee.

Washington state requires reports on charity care, in part because:

“there is a need for health care information that helps the general public understand health care issues and how they can be better consumers and that is useful to purchasers, payers, and providers in making health care choices and negotiating payments. It is the purpose and intent of this chapter to establish a hospital data collection, storage, and retrieval system which supports these data needs and which also provides public officials and others engaged in the development of state health policy the information necessary for the analysis of health care issues. (ARCW 70.170.010)

Another question for committee consideration

If the committee chooses to allow specialty hospital licensing but wants to put some sort of licensing requirements on specialty hospitals, such as requiring charity care as Washington state does, then equity suggests that similar regulation should be put on nonprofit hospitals. At the very least, even if no percentages of charity care are required, the list of charity care options should be similar for nonprofit and for-profit hospitals.

Upcoming discussions

On March 18 the committee will hear from Kristianne Wilson of Billings Clinic, who has helped to develop national guidelines for hospital charity care, and Larry White, former chief executive officer of St. Patrick Hospital in Missoula and now an assistant professor at the University of Montana. Mr. White was the contractor who wrote the Attorney General's report on Montana hospitals and suggested in the report that hospitals might work harder to identify charity care cases in advance so that less uncollectible debt would be sent to debt collectors.

Depending on whether the committee wants to explore this issue more fully, a future paper can address different approaches taken or under consideration in other states regarding community benefits.

⁴Illinois statute 210 ILCS 76/20 says charity care must be reported on a hospital's "actual cost of services provided, based on the total cost to charge ratio derived from the hospital's Medicare cost report (CMS 2552-96 Worksheet C, Part 1, PPS Inpatient Ratios), not the charges for the services."