

The Role of Non-Profit Hospital Charity Care in Illinois' Publicly-Funded Health Care Safety-Net

Prepared by:
Ralph Martire, Executive Director
Heather O'Donnell, Policy Director for Health Care

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- In 2007, Illinois ranked fifth nationally with a Gross State Product in excess of \$590 billion.
- That would be the 27th largest economy of any nation in the world-greater than Egypt, Saudi Arabia, Colombia, Belgium, Sweden, Greece, Ireland, Portugal, Norway and Nigeria, to name a few.

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- Between 1990 and 2007, Illinois lost 26% - 239,000 - of its manufacturing industry jobs.



- This loss was worse than both the Midwest (20.8%) and the Nation (20.9%).

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**LOW-END SERVICE
JOBS GROW**

- All job growth in Illinois came in the service sector.



- For the most part, service sector jobs pay less than manufacturing
- On average, most of these service jobs pay 29% less than the manufacturing jobs they replace

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Health Care Consequences

- Today, 27% of the Illinois population is either on public coverage, such as Medicaid, or uninsured.
- 1.7 million individuals living in Illinois are uninsured – they are without either public or private health coverage.
- Another 1.2 million individuals have coverage only through public health care programs, like Medicaid and SCHIP.

Source: Gilead Outreach & Referral Center, "The Voice of the Uninsured," 2008.

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The Health Care Safety-Net Funded by Public Dollars

- To meet these health care needs, there is a publicly-funded health care safety-net generally comprised of three components:
 1. Medicaid and SCHIP financed generally with federal and state tax dollars;
 2. Taxpayer-funded public health facilities like the Cook County hospitals; and
 3. Taxpayer-funded "charity care" provided by non-profit hospitals.
- The public safety net is more important than ever given the rising number of uninsured.
 - The number of uninsured climbed by 650,000 in Illinois between 1987 and 2006.
 - The number of individuals with Medicaid coverage increased by more than 300,000 between 2000 and 2006.
- For the safety-net to work as lawmakers intended, the three components of the safety-net must play their anticipated roles.

Data source for the number of uninsured: U.S. Census Bureau.

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Non-Profit Hospital-Provided Charity Care

- “Charity care” is the provision of health services at no cost, or at a reduced cost, to poor and low-income individuals who cannot afford to pay for their care.
- Charity care is an essential component of the safety-net, filling in direct government spending gaps.

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Charity Care Financing

- Charity Care is financed through indirect spending in the form of tax expenditures (tax breaks) to non-profit hospitals.

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Tax Expenditures

- Effectively, government foregoes tax revenue otherwise payable by certain taxpayers in exchange for those taxpayers providing a particular public service.
- The tax breaks granted to non-profit hospitals are public dollars to be used for the specific public purpose of providing low-income patients access to health care through the provision of charity care.

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Tax Benefits Granted to Illinois Non-Profit Hospitals

- Non-Profit hospitals receive several different types of tax breaks, each of which has a different legal standard:
 1. Federal income tax exemption
 2. State income tax exemption
 3. Local property tax exemption
 4. State and local sales tax exemption

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The Legal Standard for Federal and Illinois State Income Tax Exemption

- The IRS requires that non-profit hospitals provide a “community benefit” in exchange for federal income tax exemption.
- “Community benefit” is not specifically defined.
- The Illinois state corporate income tax exemption follows this same community benefit standard.

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Property Tax Exemption in Illinois

- An Illinois Supreme Court decision requires non-profit hospitals to provide charity care in exchange for exemption from paying local property taxes. Charity care, while not explicitly defined by statute, has been interpreted by the Illinois Supreme Court as the provision of free or reduced-cost health care to low-income individuals.

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Illinois Property Tax Exemption for Non-Profit Hospitals Requires the Provision of Charity Care

- *Methodist Old People's Home v. Korzen* (Illinois Supreme Court) – “charity is a gift to be applied...for the benefit of an indefinite number of persons...for their general welfare, or in some way reducing the burdens of government.”
- A hospital exempt from property taxation in Illinois must provide charity care to “all who need and apply for it” under the *Methodist* test, and must “not appear to place obstacles of any character in the way of those who need and would avail themselves” of it.
- Current state law does not define how much charity care is required of non-profit hospitals or who qualifies to receive it.

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Bad Debt and the Medicaid Shortfall Do Not Constitute Charity Care for Property Tax Exemption Purposes

- A hospital does not get credit for engaging in a charitable act when it seeks collection on an unpaid bill, often hiring a collection agency, and learns through the process the patient is low-income. Attempted collection on bad debts simply does not constitute “charity care”. *Alivio Medical Center v. Illinois Department of Revenue*.
- The shortfall between what the state reimburses Medicaid providers and the actual cost of caring for Medicaid patients (i.e., the “Medicaid shortfall”) also does not constitute “charity care” for purposes of local property tax exemption in Illinois. *Riverside Medical Center v. Department of Revenue*.

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The *Provena* Covenant Medical Center Case

- In September 2006, the Illinois Department of Revenue upheld the long-standing rule that non-profit hospitals must provide free or discounted care to all who need and apply for it in exchange for property tax exemption.
- In August 2007, the Circuit Court reversed the Department without issuing an opinion.
- The case is now on appeal with the Illinois Appellate Court, Fourth District.

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Current Law on Non-Profit Hospital Property Tax Exemption

- **Despite *Provena*, well-settled Illinois law requires non-profit hospitals to provide charity care under the *Methodist* test to receive property tax exemption, unless and until the Illinois Supreme Court or the General Assembly changes the law.**

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The State and Local Sales Tax Exemption

- The state statutory language conferring sales tax exemption is virtually identical to the constitutional and statutory language granting property tax exemption, meaning the same charity care standard likely applies.

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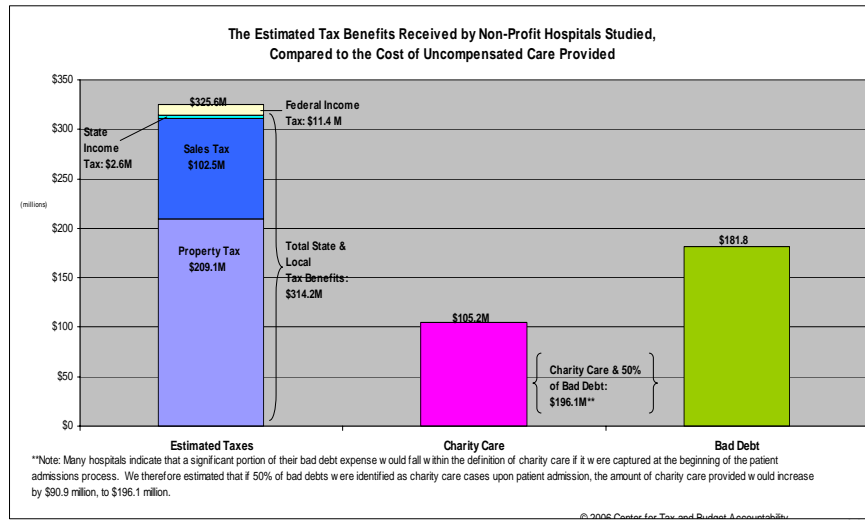
CTBA's 2006 Study

- CTBA analyzed 21 Cook County non-profit hospitals and hospital networks, estimating the value of their tax exemptions and comparing it to the charity care provided.
- The charity care standard was used because 96% of the value of the tax breaks granted require the provision of free or discounted care in exchange for privileged tax status.
- CTBA's methodology for estimating tax exemption value was based on Harvard professor – Dr. Nancy Kane's – methodology.

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CTBA's Findings



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CTBA's Findings

- The tax benefits received by the Hospitals Studied are **three times greater** than the charity care provided.
- On average, the cost of **charity care** provided by the Hospitals Studied totaled only **1.8% of total hospital expenses**.

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CTBA's Findings

- The state and local tax exemptions requiring the provision of charity care accounted for fully 96% of all tax breaks received.
- The property tax exemption accounted for nearly two-thirds of the value of all tax exemptions.
- The federal and state income tax exemptions, which allow for the broader “community benefits” standard, accounted for only 4% of the value of all tax breaks granted.

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CTBA's Findings

- The non-profit Hospitals Studied reported a bad debt cost of \$181.8 million.
- Illinois law is clear – pursuing an uncollectible bill owed by a low-income patient does not constitute a charitable act.

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CTBA's Findings

- *If non-profit hospitals simply identified charity care patients on the front-end of the process rather than through the collection process, 50% of bad debt costs could qualify as charity care.*

- Under this scenario, the non-profit Hospitals Studied could eliminate over 40% of the gap (\$91 million) between the value of the tax exemptions and charity care provided, ***at no additional cost to the hospitals.***

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Review of Legal Standards for Non-Profit Hospital Tax Breaks in Illinois

NPH Tax Benefit	Charity Care Standard	Community Benefit Standard	Percentage of Value of all Tax Breaks in CTBA's Study
Federal Income Tax Exemption		X	3.5%
Illinois State Income Tax Exemption		X	0.8%
Local Property Tax Exemption	X		64.2%
State/Local Sales Tax Exemption	X		31.5%

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Distinguishing Non-Profit Hospitals From For-Profit Hospitals

- The provision of charity care is what distinguishes non-profit hospitals from their for-profit, taxpaying counterparts.
- Charity care is a significant component of the publicly-funded health care safety-net.
- Given severe budget constraints at all levels of government, it is important to analyze whether all public health care dollars, including public funds in the hands of non-profit hospitals via tax breaks, are being spent as lawmakers intended.

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Requiring the Provision of Charity Care in the CON Process

- A principle rationale for the CON process is to protect and preserve the safety-net and safety-net providers.
- It is important that all providers expected to play a specific role in the publicly-funded health safety-net are fulfilling their intended role.
- If some hospitals are not living up to their public responsibilities, the burden – both in terms of patient load and cost – is shifted onto other public and non-profit safety-net providers.

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Requiring the Provision of Charity Care in the CON Process

- **Charity care accountability measures that are *fair and financially sustainable* should be part of the CON process in Illinois.**

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Contact Information

Ralph Martire, Executive Director

(312) 332-1049

rmartire@ctbaonline.org

Heather O'Donnell, Policy Director – Health Care

(312) 332-1348

hodonnell@ctbaonline.org

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