



Healthcare Association
of New York State

**New York State Senate Select Committee on
Budget and Tax Reform
Property Tax Exemption Roundtable Discussion**

October 13, 2009

Presented by

The Healthcare Association of New York State

Good afternoon. I am Sue Ellen Wagner, Vice President, Community Health, at the Healthcare Association of New York State (HANYS). On behalf of HANYS, thank you for inviting me to participate in this roundtable discussion related to property tax exemption.

HANYS represents more than 200 not-for-profit and public hospitals across the state, all of which provide compassion and vital health care services to their communities 24 hours a day, seven days a week, 365 days a year. Governed by boards of trustees drawn from their communities, New York's hospitals are mission-driven, serve millions of uninsured and underinsured people, and not only care for the ill and injured, but also protect the well-being of the entire community through numerous outreach, prevention, and education programs.

Hospitals are always there when communities need them—caring for all, regardless of ability to pay. For many years, not-for-profit hospitals have fulfilled certain charitable obligations that have evolved over time to keep pace with the needs of their communities. Hospitals provide nearly \$2 billion in uncompensated care annually in services to the uninsured and underinsured, including absorbing shortfalls in payment from Medicaid. But, that is only part of the story.

In addition to being a critical resource for preventive care, New York's hospitals are integral to their local economies, including the large number of people they employ, the impact of hospital purchasing, and the impact of their employees' spending and tax payments.

According to a January 2008 analysis by HANYS, New York's hospitals generate some \$101.1 billion for the state and local economies each year—about 10% of the Gross State Product. In addition, hospitals employ more than 357,780 full-time equivalent workers, with a payroll of \$26.8 billion. Dollars earned by hospital employees and spent on groceries, clothing, mortgage payments, rent, etc. generate approximately \$57.9 billion in economic activity for the local economy. Hospital employees and those jobs supported indirectly by hospitals paid more than \$2.6 billion in state and local personal income taxes in 2004. Hospital employees and those jobs supported indirectly by the hospital paid another \$919.3 million in local sales tax and \$901.2

million in state sales tax. (Data used for this analysis includes 2006 hospital Institutional Cost Report data and the Regional Input-Output Modeling System II developed by the U.S. Department of Commerce, Bureau of Economic Analysis.)

In 1969, the Internal Revenue Service (IRS) expanded the legal parameters of charity for not-for-profit hospitals (Ruling 69-545) and defined charity in IRS Ruling 83-157 (1983) as “the promotion of health for a class of persons sufficiently large so the community as a whole benefits.” This definition represented an important step to encourage not-for-profit hospitals to fulfill their charitable obligations through more proactive approaches to health improvement in local communities. Since 1969, not-for-profit hospitals have been able to fulfill their charitable obligations through an appropriate mix of charity care, financial assistance to low-income patients, subsidized health care, research, health professions education, and many other community health-related activities tailored to meet the needs of their communities.

Tax exemption is often considered as a subsidy for costs the federal, state, or local government would otherwise incur to provide important health services. A hospital’s tax-exempt status is linked to the amount of uncompensated care it provides, and to the community benefit programs the hospital offers.

Recent IRS actions have expanded the scope of what hospitals need to report to demonstrate their community benefit. In addition, a few years ago, New York State established hospital financial aid guidelines for patients who do not have the ability to pay for care.

History of New York State’s Community Benefit Standard

New York State’s hospitals have been organized, chartered, and function as not-for-profit, charitable organizations. New York began to seek information about the extent of the community benefit hospitals provide in the early 1990s, and was among the first in the country to do so. New York State continues to be one of the most progressive states in community benefit reporting.

New York's community benefit standard was formally defined in 1990 in Chapter 922, Section 2801-1 of the Public Health Law, which requires all voluntary not-for-profit hospitals to annually submit a community service plan (CSP) to the Department of Health. The CSP format was designed with input from the State Hospital Review and Planning Council.

CSPs provide a vehicle for not-for-profit and voluntary hospitals to provide evidence of how well they are meeting community health needs. CSPs also assure that hospitals have a process in place for continual reassessment of their mission and strategic direction by engaging periodic community input (also known as the "community needs assessment process").

The Health Care Reform Act of 1996 required hospitals to submit a comprehensive CSP once every three years, and a shortened version (implementation report) the other two years.

The comprehensive CSP requires hospitals to report on the following elements: mission, charity care, public participation, needs assessment, strategic plans, financial statements, and corporate structure.

The shortened implementation report requires hospitals to report their mission, performance in meeting the health needs of the community, charity care, improving access to care, and corporate structure. By implementing community benefit programs, hospitals and health systems demonstrate that a proactive approach to community health improvement is an important and tangible component of not-for-profit hospitals' charitable commitment.

In response to the Commissioner of Health's Prevention Agenda to make New York one of the healthiest states in the nation, hospitals and local county health departments are working collaboratively to select priorities that have been identified as part of the Prevention Agenda that are critical to the health of their communities, and are implementing new strategies to integrate "traditional" medical services with public health interventions. These new joint planning efforts will provide an enhanced assessment of community need.

Uncompensated Care

HANYS has been at the forefront of ensuring that fear of a hospital bill should never get in the way of a New Yorker receiving essential health care services. In January 2004, HANYS took a proactive approach and published its board-approved *Financial Aid/Charity Care Guidelines* for its hospital members to use to communicate what New York patients can expect from their hospitals. These guidelines clarified that hospitals should ensure that patients are aware of their financial aid policies; that these policies are clear, respectful of patients, and tailored to patients' needs; and that the policies reflect the values and mission of the organization and patient needs.

All of HANYS' members voluntarily complied with these guidelines, long before a state mandate was established in 2007.

New York State's Hospital Patient Financial Aid Law, enacted in 2007, mandates that hospitals provide financial aid to qualifying low-income uninsured, as well as qualifying low-income insured patients who have exhausted their health care insurance benefits. The law also states that hospitals, at their discretion, may extend financial assistance to insured patients for copayments and deductibles. Many hospitals have elected to exceed this statutory floor.

New York State has approximately 2.7 million uninsured people—14.1% of the state's population. HANYS and its members are committed to working with legislators and policymakers to reduce the number of uninsured New Yorkers. Hospitals are the primary safety net providers of health care services to the uninsured population, with hospital emergency departments and clinics assuming a disproportionate share of responsibility for this population's care. In 2008, HANYS' member hospitals provided nearly \$2 billion annually in uncompensated care, in addition to significant losses from government reimbursement that does not cover the cost of providing care.

Hospitals provide needed care to patients, regardless of their ability to pay, by means of charity care and financial assistance for uninsured patients of limited financial means. As a condition of receiving federal tax exemption for providing health care to the community, hospitals are required to care for Medicare and Medicaid beneficiaries. They also participate in other indigent

care programs, although reimbursement from these programs often falls short of the actual cost of care.

In addition, hospitals shoulder the burden of bad debt when patients are unable to pay their bills and decline to apply for charity care or are unwilling to pay. Hospitals also provide other benefits to the broader community without payment, such as research and health professions education.

Federal Community Benefit Reporting

The IRS recently released a substantially changed tax Form 990, which includes 15 new reporting schedules for tax-exempt organizations, including hospitals. The revised Form 990 creates a new Schedule H for hospitals to complete that creates a uniform approach and format for reporting community benefit. Beginning in tax year 2009, tax-exempt hospitals that file a Form 990 will be required to file the new Schedule H. These IRS guidelines call for greater accountability and transparency of hospitals, increased financial assistance for uninsured patients, and fair and transparent billing and collection practices. This new Schedule H will provide the public with a significant amount of information related to the community benefit hospitals provide to their communities; its requirements exceed the New York State CSP reporting requirements.

Key Components of Tax-Exempt Health Care Organizations

All of New York State's hospitals share common community benefit functions that fulfill their charitable mission. While these community benefits take many forms, the Healthcare Financial Management Association summarized the attributes of tax-exempt health care organizations as follows:

- Mission is the cornerstone of granting tax exemption. According to federal law, the tax-exempt provider must have a clearly defined mission statement committing the organization to charitable endeavors. Both the organization's historical background and the community's needs are important in framing the mission statement.

- The organization’s board of governors must hold itself accountable to its community for maximizing the hospital’s contribution to the community.
- Provision of charity care is an important component of hospitals’ tax-exempt mission, but is not the only function that hospitals perform to merit tax-exempt status. Organizations that provide charity care must establish and communicate a clear charity care policy based on community need and input.
- Good will is an intangible attribute that characterizes tax-exempt hospitals that have provided care and met their community responsibilities over a long period of time.
- Tax-exempt hospitals provide services that government otherwise would have to provide.
- Tax-exempt providers are often the sole providers of health care services that are essential to community health, such as emergency room care and outpatient clinics serving low-income patients.
- Most tax-exempt health care providers also provide many educational programs to enhance public and community health and wellness.
- Serving other unmet human needs is another component of tax-exempt status. Hospitals routinely provide services such as senior citizen education, prenatal care education, and meals-on-wheels programs.

Challenges Hospitals Face to Their Tax-Exempt Status

Over the past several years, tax-exempt hospitals and health systems have faced challenges to their tax-exempt status for perceived failures to live up to a charity care standard that does not even exist in federal law. The current federal legal standard—community benefit—is a sound and rigorous criterion for exemption. It requires a commitment to overall community health, including, but not limited to, low-income individuals, which the more narrow charity care criterion would lack.

The full magnitude of the community benefit of tax-exempt health care providers is not made clear by focusing solely on the financial measures of charity care. Community benefit means both providing quality hospital services and going beyond the walls of the traditional hospital to improve community and public health.

Attached is HANYS' publication, *Connecting With Communities*, which provides examples of the vast array of community benefit programs that hospitals statewide are providing to New York's communities.

Great strides have been made from within the not-for-profit health care community to better define community benefit, account for it, and report it to the public and policymakers.

By recognizing the distinguishing characteristics of tax-exempt hospitals and health systems, public policymakers will have a better understanding of how and why these organizations serve the public good and deserve tax-exempt status.

Thank you for providing HANYS the opportunity to participate in this roundtable discussion.