



The Hilltop Institute

analysis to advance the health of vulnerable populations

Hospital Community Benefit: A Policy Lever for States

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Steering Committee,

Reforming States Group

Overview

- Hospital Community Benefit and the “Cost” of Tax Exemption
- Using Hospital Community Benefit as a Policy Lever
- Federal Community Benefit Requirements
- State Community Benefit Requirements
- Policy Options
- Regulatory Tools, Approaches, and Policy Levers
- How to Get Started

Hospital Community Benefit and the “Cost” of Tax Exemption



Sources of Hospital Community Benefit Funds



There are about 2,900 non-government, nonprofit community hospitals in the United States.

Source: *AHA Hospital Statistics, 2014.*

<http://www.aha.org/research/rc/stat-studies/fast-facts.shtml>

“Cost” of Federal Tax Exemption

| | |
|---|----------------------|
| Federal income tax | \$2.5 billion |
| Tax-exempt debt (bond financing) | \$1.8 billion |
| Deductibility of charitable contributions | <u>\$1.8 billion</u> |
| Total federal benefits | \$6.1 billion |

Source: Congressional Budget Office, 2006 (based on 2002 data, the most recent data available)

“Cost” of State Tax Exemption

| | |
|---|-----------------------|
| State corporate income tax | \$ 0.5 billion |
| State sales tax | \$ 2.8 billion |
| State & local property tax | <u>\$ 3.1 billion</u> |
| Total state & local benefits | \$6.4 billion |

Source: Congressional Budget Office, 2006 (based on 2002 data, the most recent data available)

Community Benefits

- In exchange for tax exemption, nonprofit hospitals are expected to provide “community benefits”

What Are Hospital Community Benefits?

Hospital Community Benefits are *initiatives*, *activities*, and *investments* undertaken by tax-exempt hospitals to improve health in the communities they serve.

Federal Community Benefit Objectives

- Educate the public
- Improve access to health services
- Enhance public health
- Advance generalizable knowledge
- Relieve government burden to improve health

Using Hospital Community Benefit as a Policy Lever



What States Are Doing

Several states are presently using **hospital community benefit** as a **policy lever** to advance **state health goals** and **population health**.

Maryland: Attention to Health Disparities

“Each nonprofit hospital ...community benefit report

(2) ...shall include: ...

(vi) A description of gaps in the availability of specialist providers to serve the uninsured in the hospital; and

(vii) A description of the hospital’s efforts to track and reduce health disparities in the community that the hospital serves...”

Md. Code. Ann. Health-Gen.,§19-303(c)

New Hampshire: Non-Clinical Reporting

COMMUNITY BENEFIT REPORTING FORM

500 - Socioeconomic Issues: General

- **501 - Aging Population**
- **502 - Immigrants/Refugees**
- **503 - Poverty**
- **504 - Unemployment**
- **505 - Homelessness**
- **506 - Economic Development**
- **507 - Educational Attainment**
- **508 - High School Completion**
- **525 - Vandalism/Crime**
- **553 - Air quality**
- **554 - Water quality**

Washington State: Demonstrate Effectiveness

- Washington state requires that hospitals' community benefit programs must be ***evidence-based*** “when available” or that innovative programs and practices must be supported by ***evaluation measures***

2012 Wash. Laws, Ch. 103

New York: Required Alignment with Some State Policies

New York Prevention Agenda 2014-2017

Five Priority Areas:

- Prevent chronic diseases
- ***Promote healthy and safe environments***
- Promote healthy women, infants, and children

New York: Required Alignment with Some State Policies

continued

- Promote mental health and prevent substance abuse
- Prevent HIV, sexually transmitted diseases, vaccine-preventable diseases, and healthcare-associated infections

Converging Factors

- The levels of uncompensated care are decreasing in at least some Medicaid expansion states, possibly freeing up hospital resources that could be used for community benefit investments that align with state health priorities.
 - Governing Magazine, June 17, 2014; Arizona Star Daily ,July 4, 2014; Colorado Health Association, Center for Health Information and Data Analytics, June 2014

Converging Factors continued

- Although hard data is not yet available, it is expected that Qualified Health Plans in both expansion and non-expansion states should also reduce levels of uncompensated care.

Converging Factors continued

- *Healthy People 2020*, the *Affordable Care Act*, and the *National Prevention Strategy* (a plan designed to move the nation “from a system of sick care to one based on wellness and prevention”) all evidence the importance of using government policies to improve health.

Federal Community Benefit Requirements



Tax Exemption for Charitable Institutions

- IRS first articulated federal community benefit requirements in 1969. IRS Rev. Rul. 69-545
- The public policy rationale behind it has been traced back to the 17th century

IRS Form 990, Schedule H

- Charity care
- Medicaid shortfall
- Community health improvement services
- Health professions Education
- Research
- Cash & in-kind contributions for community benefit

State Community Benefit Requirements



State Community Benefit Laws

- State are *not* required to defer to federal tax exemption standards
- State laws can be more or less restrictive

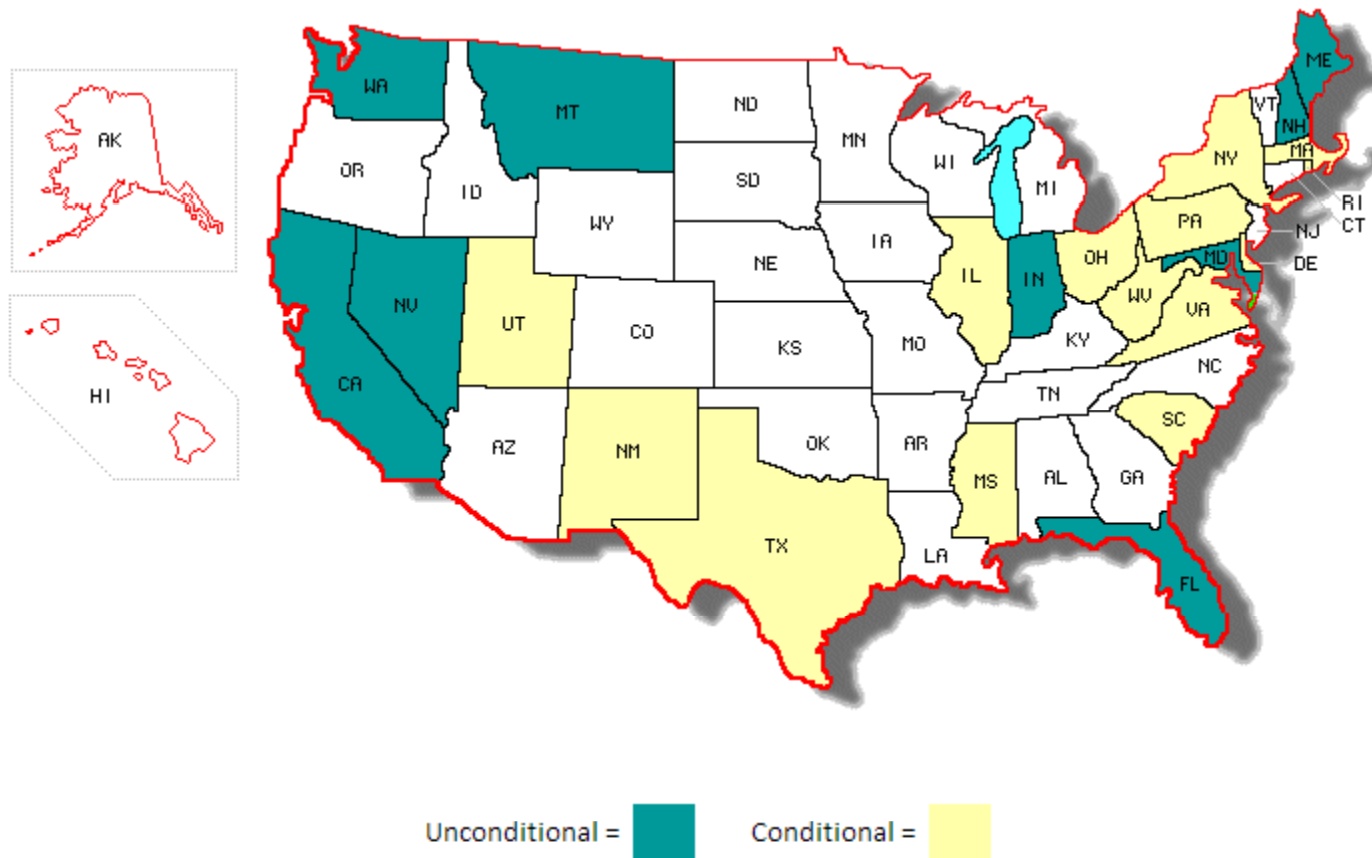
State Community Benefit Laws Viewed through the Lens of the Federal Framework



State Profile Comparison

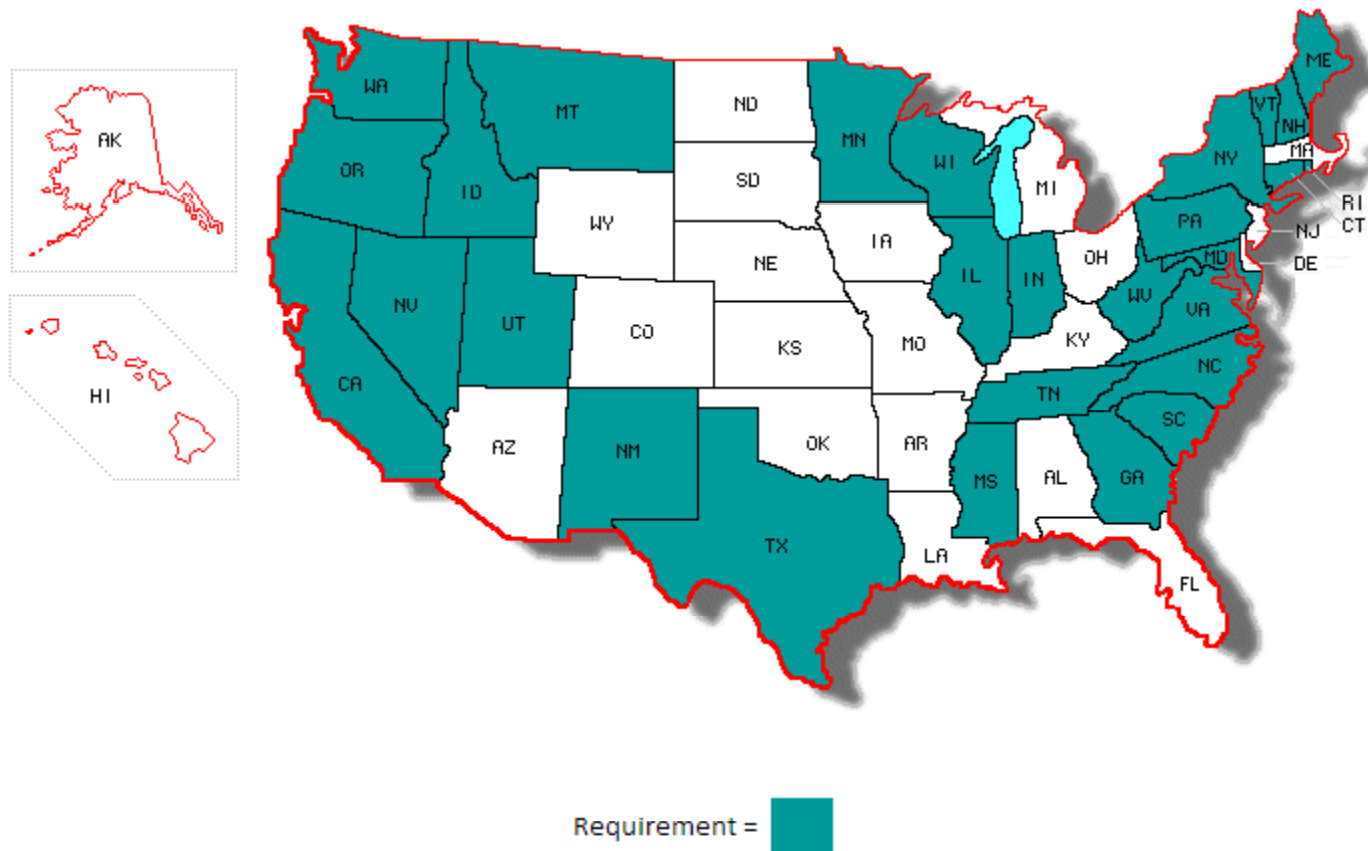
| Compare | State | Community Benefit Requirement | Mandatory Minimum Community Benefit Requirement | Community Benefit Reporting Requirement | Community Health Needs Assessment | Community Benefits Plan/ Implementation Strategy | Financial Assistance Policy | Financial Assistance Policy Dissemination | Limitations on Charges, Billing, and Collections |
|--------------------------|-------------|-------------------------------|---|---|-----------------------------------|--|-----------------------------|---|--|
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Community Benefit Requirement

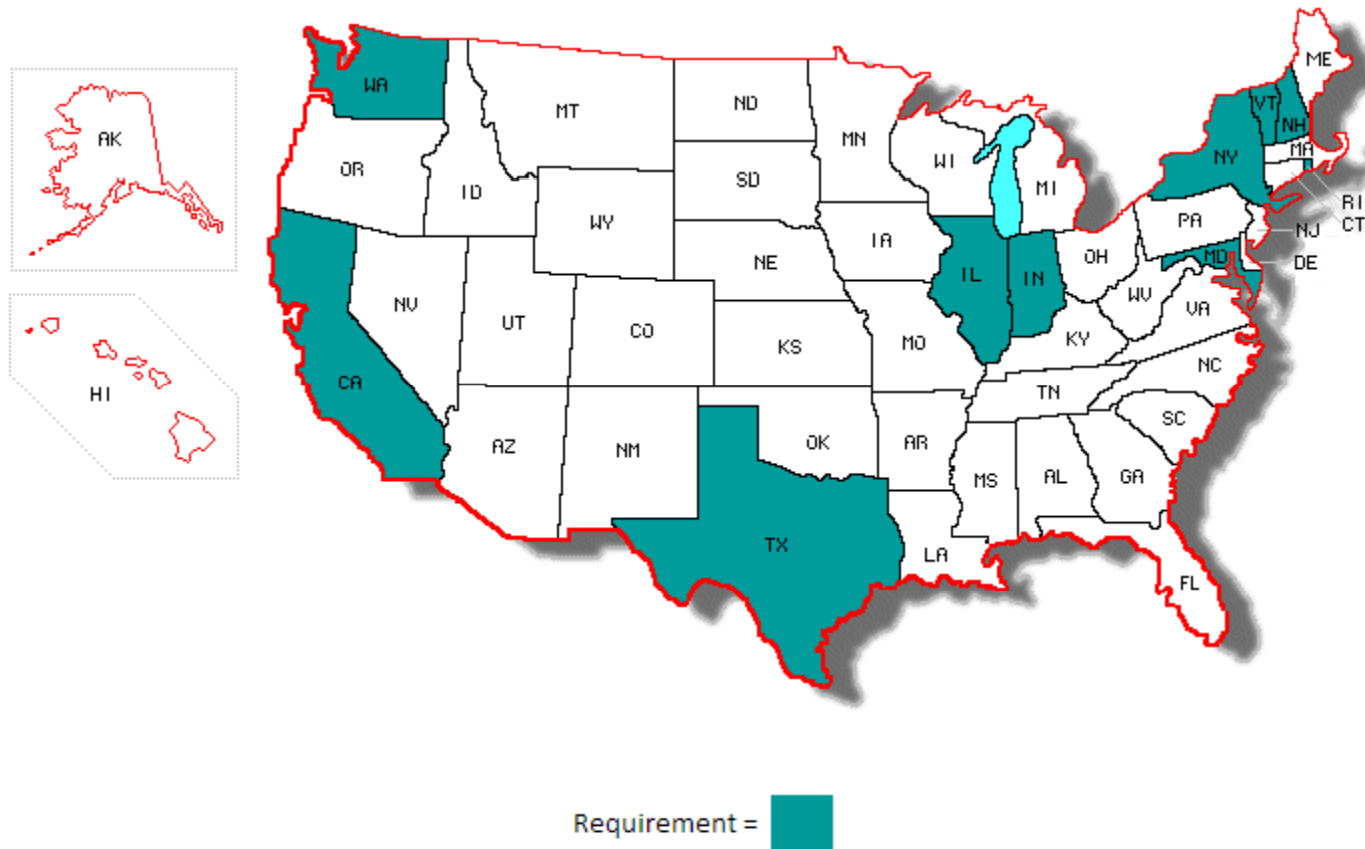


Source: The Hilltop Institute

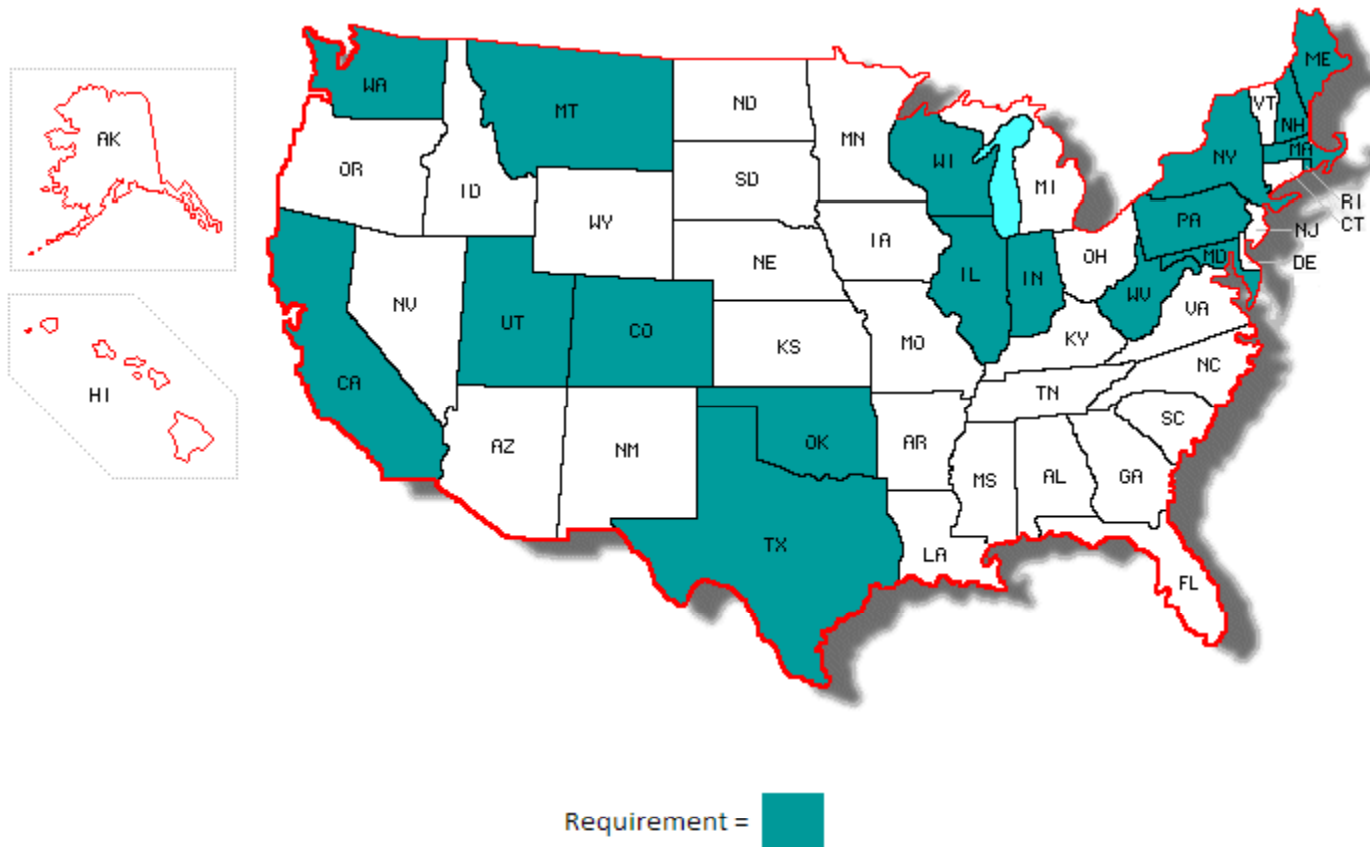
Community Benefit Reporting Requirement



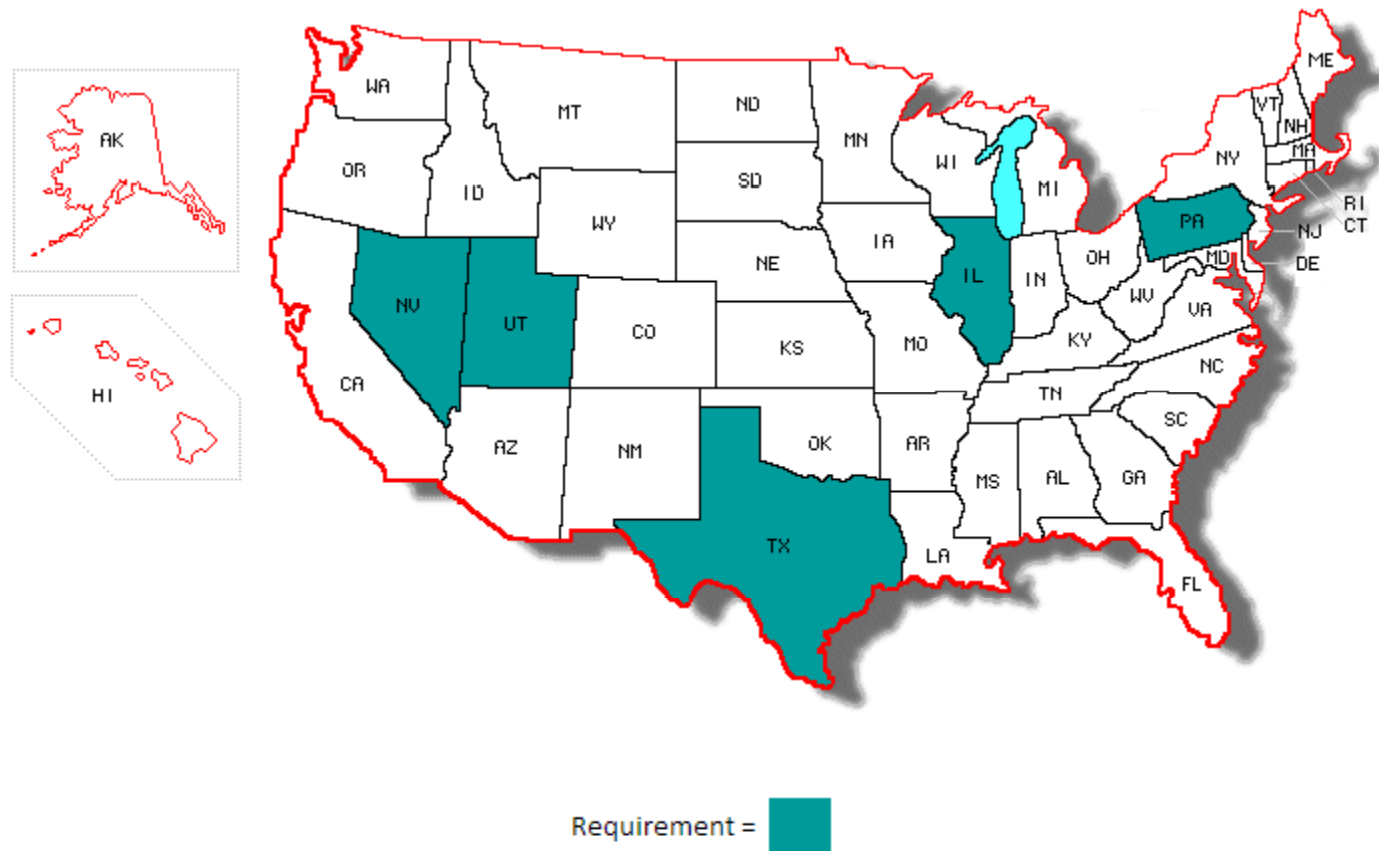
Community Health Assessments & Implementation Strategies



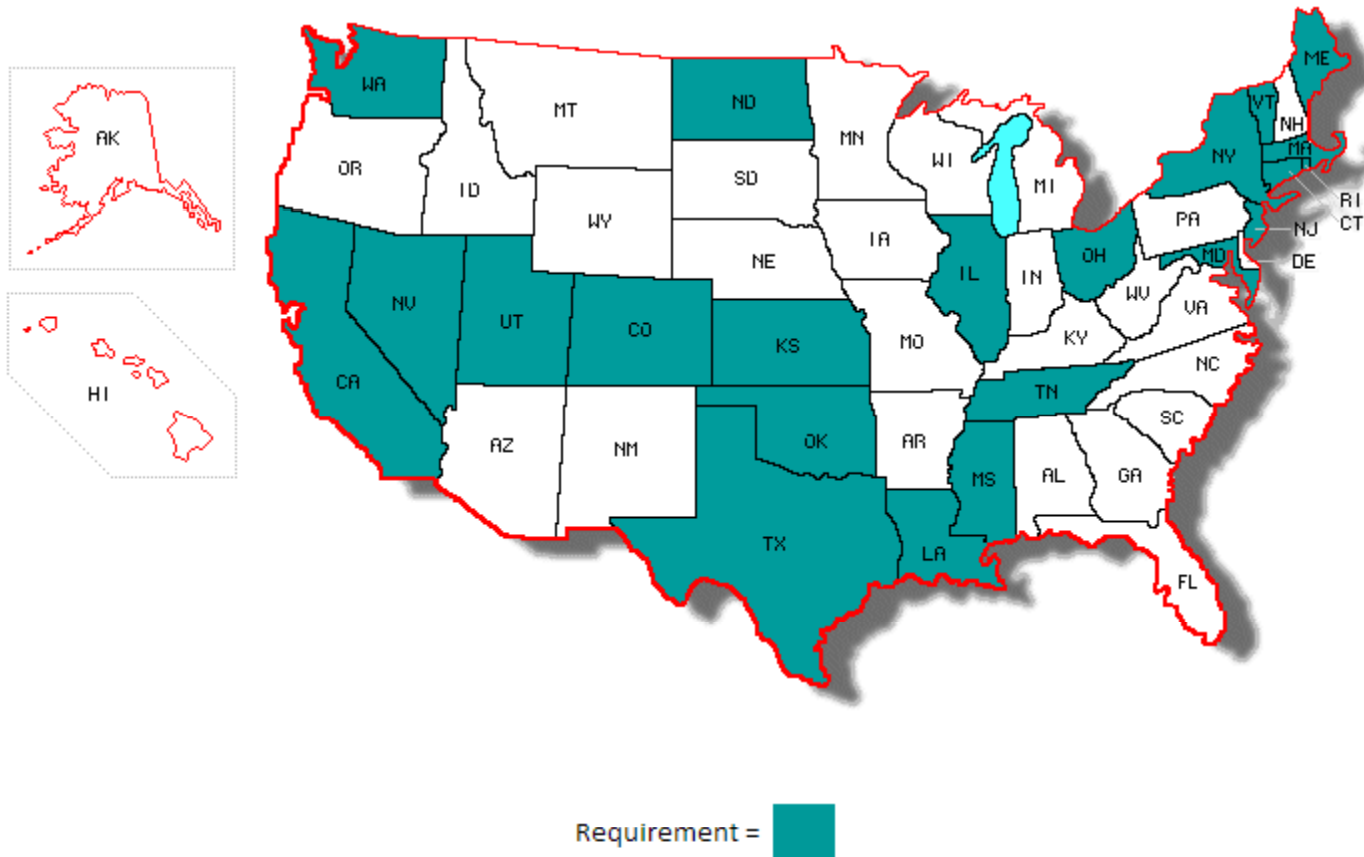
Financial Assistance Policy Requirement



Mandatory Minimum Community Benefit Requirement



Limitations on Charges, Billing, and Collections



One State's Profile

RHODE ISLAND

Community Benefit Requirement

Rhode Island requires hospitals to provide charity care, uncompensated care, and other community benefits as a condition of licensure.

Rhode Island has established statewide standards for the provision of charity care, uncompensated care, and community benefits as conditions of initial and continued hospital licensure and for hospital conversions. [R.I. Gen. Laws §23-17-43](#); [23-17 R.I. Code R. §8.7](#); [23-17.14 R.I. Code R. §§11.0 – 11.6](#).

Rhode Island's hospital licensing regulations expressly require that hospital charity and uncompensated care and community benefit standards be consistent with the rules and regulations applicable to hospital conversions. [23-17 R.I. Code R. §8.7](#). These define "community benefit" broadly to include the provision of hospital services that meet the community's needs, charity care, uncompensated care, programs to meet the needs of medically indigent individuals, non-revenue producing programs available in the community (e.g., health screenings or transportation services), scientific or medical research, education activities, forming linkages with community partners focused on improving community health, and engaging in community health advocacy. [23-17.14 R.I. Code R. §1.9](#).

Minimum Community Benefit Requirement

Rhode Island does not specify a minimum level of community benefits that hospitals must provide.

Community Benefit Reporting Requirement

Rhode Island law requires hospitals to submit annual community benefit reports to the Director of the Department of Health (Director).

The reports must include detailed descriptions, with supporting documentation, of the costs of charity care, bad debt, and contracted Medicaid shortfalls. [R.I. Gen. Laws Ann. § 23-17.14-15\(d\)](#). If the Department of Health receives "sufficient information" indicating that a licensed hospital is not in compliance with state community benefit standards, then the Director is required to hold a hearing, issue written findings, and impose appropriate penalties. [R.I. Gen. Laws Ann. § 23-17.14-15\(e\)](#).

Community Health Needs Assessment

Rhode Island requires hospitals to develop a formal Board-approved community benefit plans that includes a comprehensive assessment of the health care needs of its community.

Policy Options



Policy Options Directed Toward Addressing Clinical Factors

States can use Hospital Community Benefit oversight to advance state health policies with respect to:

- Patient care
 - Increasing access to health care
 - Preventative services to prevent and control chronic conditions such as high blood pressure and diabetes

Policy Options Directed Toward Addressing Clinical Factors

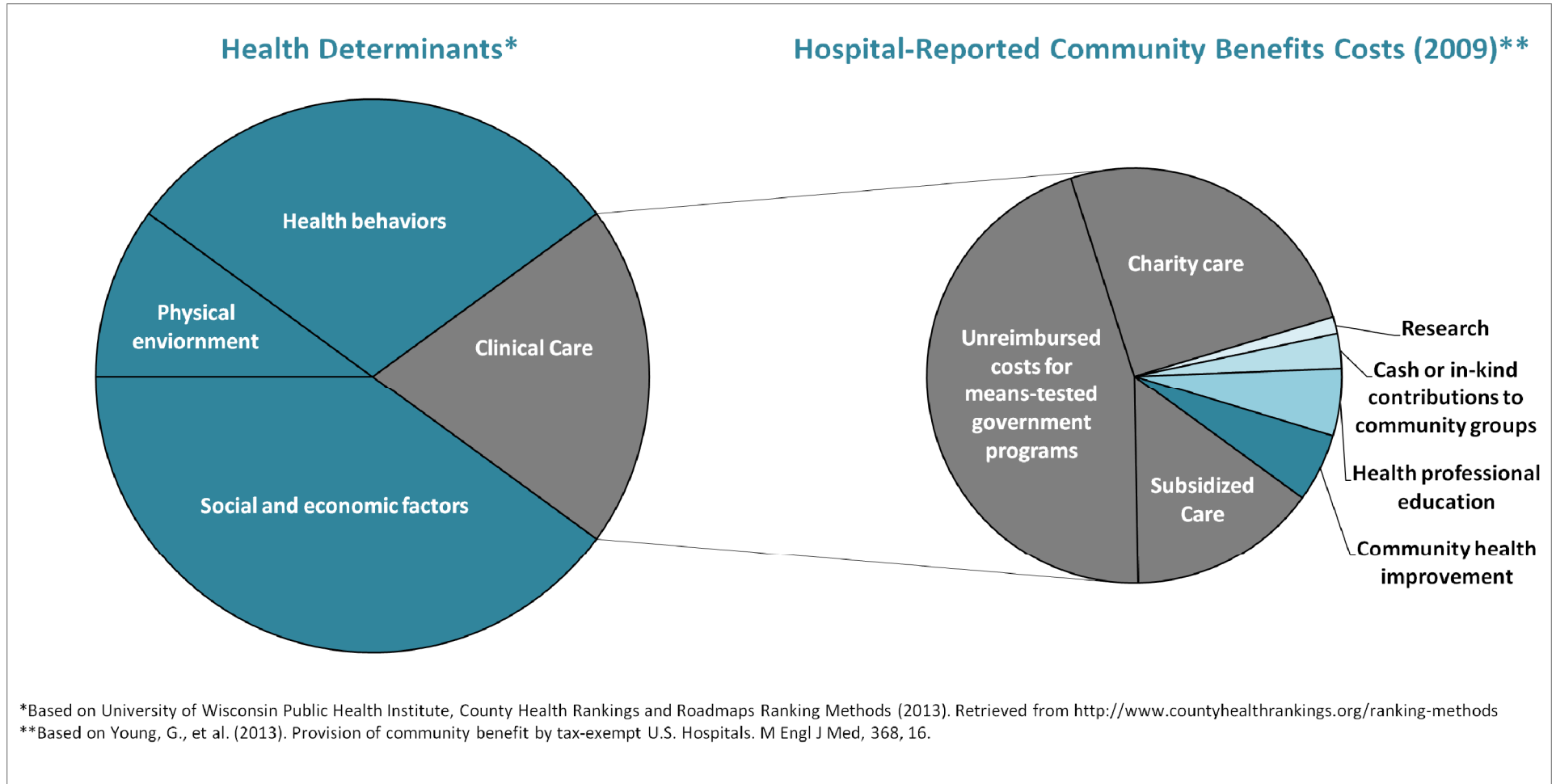
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- Behavioral Health
 - Mental health
 - Substance abuse
- Health Behaviors
 - Tobacco cessation
 - Active living
 - Healthy food choices

Policy Options Directed Toward Addressing Health Determinants

- Income
- Education
- Employment
- Community safety
- Healthy foods
- Physical environment
- Access to recreational facilities
- Socioeconomic conditions
- Housing
- Transportation options
- Race & ethnicity
- Language
- Literacy
- Culture
- Social cohesion & supports

Health Determinants Compared to Hospital-Reported Community Benefit Expenditures



Regulatory Tools, Approaches, and Policy Levers



Examples of Regulatory Tools in Selected States

■ Statutes and/or Regulations

- *California, Illinois, Indiana, Maryland, Rhode Island, Utah*

■ Express Policy Guidance

- *Massachusetts, New York*

■ Community Benefit Reporting Documents

- *Maryland, New Hampshire*

State Entities that Oversee Hospital Community Benefit

- Office of Statewide Health Planning and Development (**California**)
- Office of the Attorney General
 - Illinois**
 - Massachusetts** (voluntary requirements)
 - New Hampshire**
- Health Services Cost Review Commission (**Maryland**)
- **Utah** State Tax Commission, Property Tax Division

Policy Levers in Use by States

- Community Benefit Requirements
- Community Benefit Reporting Requirements
- Community Health Needs Assessment Requirements
- Implementation Strategy Requirements
- Financial Assistance Requirements

Policy Levers in Use by States

continued

- Mandatory Minimum Community Benefit Requirements
- Limitations on Charges, Billing & Collections
- Community Engagement Requirements
- Health Disparities Reporting Requirements
- Health Determinants Requirements
- Evidence-of-Effectiveness Requirements

How to Get Started

- Confirm whether and how your state is presently exerting oversight authority over hospital community benefit. If it is not doing so, consider whether oversight authority would be desirable and how it might be established.
- Determine which state health policies, if any, your state might seek to advance through hospital community benefit.

How to Get Started continued

- Consider whether your state would seek to *require*—or merely *encourage*—inclusion of the state health policy goal(s) in the community benefit process.
- Determine whether legislative or executive branch officials might be best suited to lead state efforts.

How to Get Started continued

- Convene stakeholders to explore opportunities to harmonize state health goals with community benefit processes.
- Consider the experiences of other states, and lessons learned.

About Hilltop's Hospital Community Benefit Program

Hilltop's Hospital Community Benefit Program is a central resource for state and local policymakers who seek to ensure that tax-exempt hospital community benefit activities are responsive to pressing community health needs. The program provides tools to these and other stakeholders in support of their efforts to improve population health and to promote a more accessible, coordinated, and equitable community health system.

<http://www.hilltopinstitute.org/hcbp.cfm>

About The Hilltop Institute

The Hilltop Institute at the University of Maryland, Baltimore County (UMBC) is a nationally recognized research center dedicated to improving the health and wellbeing of vulnerable populations. Hilltop conducts research, analysis, and evaluations on behalf of government agencies, foundations, and nonprofit organizations at the national, state, and local levels.

www.hilltopinstitute.org

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