

# **Hospital Tax-Exemptions and Community Benefits**

## **Fact Sheet**

**Champaign County Health Care Consumers (CCHCC) produced this Fact Sheet on Community Benefits. Much of the material contained in this Fact Sheet is derived from The Access Project's publication titled, "Defending Community Benefits in a Changing Health Care World." We also relied on publications and information from Dr. Kevin Barnett and the Public Health Institute, as well as Dr. Nancy Kane from the Harvard School of Public Health.**

**The purpose of this Fact Sheet is to explain the relationship between tax exemptions for nonprofit health care providers, community benefits, and community involvement in allocating nonprofit providers' resources to meet communities' health-related needs.**

### **What Are Community Benefits?**

Community Benefits are the unreimbursed goods and services, provided by local health care institutions, *that address community-identified health needs and concerns*. These are the things that a provider or insurer does that improve the health of the community, but for which the institution does not get paid. Some common examples of community benefits include free or "charity" care, subsidies for health coverage for the uninsured, financial and other support of local organizations (such as transitional housing programs, referral and advocacy organizations) to support and expand their work, contributions of other resources such as vans, and buses, for various community activities or programs, etc.

### **How Are Community Benefits Determined?**

Community Benefit programs should be developed in principled and meaningful partnership with the community in which the health care institution is located. Community benefits should address unmet health-related needs of the community. The discussion and decision-making process about what those unmet needs are should be a public process – involving as much of the larger community as possible. In particular, community stakeholders or partners who help determine the need and help shape the programs should include the people who are most affected by the problem. People who are facing the health problems themselves, as well as representatives of organizations who work with clients facing the problems should figure prominently in any community benefits decision-making process.

### **Where Do Community Benefits Come From?**

Traditionally, most hospitals have been nonprofit organizations formed for charitable purposes. Hospitals often met their charitable obligations by providing charity care for those unable to pay. They also provided services such as health screenings and health education campaigns. These community benefits formed an important health care safety net for millions of uninsured and vulnerable populations.

### **Community Benefits and Property Tax Exemptions**

Beyond the basic charitable mission and purposes under which non-profit organizations were created, Community Benefits also come from obligations associated with tax-exemptions. As many communities are realizing the financial value of the property tax exemptions granted to their health care providers, they are beginning to demand that nonprofit hospitals earn their tax exemptions by benefiting their communities in concrete ways.

### **Tax Exemptions, Public Trust Assets, and Community Benefits**

When non-profit providers are exempt from property taxes, it means that local community members are shouldering the tax burden *for* that institution. The institution still needs water, sewage, roads and stoplights,

and it still benefits from police and fire protection, as well as other community services that are funded through property taxes. These community and public services are financed by community members who pay local property and sales taxes.

In exchange for shouldering the costs of the nonprofit health care providers' tax exemptions, communities expect health care providers to use their resources – their special skills, knowledge and institutional and financial resources – to directly benefit the community in the ways that the community determines to be most effective and necessary.

The non-profit providers' assets, in the forms of financial wealth, bricks and mortar, and other resources, are financed in part through their tax exemptions. Therefore, because these assets are derived through the contributions by the rest of the community (when the community shoulders the burden for the provider's tax exemption), the assets belong to the community. In other words, the community has subsidized the accumulation of these assets, and therefore the provider is in a position of holding these assets in public trust. In turn, the provider must then use these public trust assets to benefit the community in concrete ways through community-determined community benefit programs.

The provider should ultimately provide Community Benefits whose value exceeds any property tax exemption value. This is part of fulfilling its mission as a non-profit health care institution. Beyond local property taxes, the provider derives state and federal tax exemptions on the basis of its charitable mission, so the value of the provider's Community Benefits programs should not be limited to the value of the local property tax exemption.

### **What Are Some Public/Community Expectations of Assets Derived from Tax-Exemptions?**

Dr. Kevin Barnett and the Public Health Institute have developed "The Public Trust Model" (1997) which outlines six public expectations associated with tax exemption. These six principles express how communities expect nonprofit healthcare providers to make the best use of their assets gained through tax exemption:

1. Assets should be redistributed so that they are used in the geographical areas and among the populations where the greatest need exists.
2. The special professional skills and knowledge the provider has should be made available for the community's benefit.
3. Assets should be used and allocated efficiently, and they should be used to leverage additional resources and funding.
4. Community benefit programs and public trust assets should be protected from political influence and budget debates (a benefit should not be de-funded just because the political current has shifted).
5. The decision-making structure and process should reflect the diversity of the community.
6. Investment in local community-based organizations may be the most efficient, productive and beneficial way of addressing community needs, and is a legitimate community benefit. Revenues to local organizations may yield higher benefits to the community as a whole.

### **Threats to Community Benefits & Threats to Health Care Access for the Uninsured**

In recent years, the health care system has been changing in ways that can threaten the delivery of community benefits. Under pressure to reduce costs and maximize "profit," some hospitals and health systems have become less able or willing to provide community benefits.

Another trend that can undermine the provision of community benefits has been the growth of for-profit health care. In particular, many of the most basic preventive and primary care services which people need to stay healthy or to address health conditions before they deteriorate into emergencies, are provided as out-patient services, not by non-profit hospitals, but by for-profit clinics or physician practices. Many non-profit hospitals who do not operate clinics or make outpatient health services available also fail to ensure primary care access as a community benefit. Their rationale is frequently that they do not turn anyone away from the emergency room, and that they are not responsible for the for-profit providers' practices, which may limit access to care to the

uninsured. However, this division in health care (non-profit hospital providing hospital services / for-profit clinic providing outpatient and primary medical care), does *not* mean that a non-profit hospital cannot make access to primary and outpatient care services a community benefit. In fact, it may even indicate a stronger need and responsibility for the hospital to make an access to care program part of the hospital's community benefits program.

### **Challenges to Health Care Providers' Tax Exemptions.**

In a number of local and state jurisdictions, government authorities are challenging the tax exemptions of their nonprofit hospitals, claiming that these institutions owe a duty to their communities. There is a growing demand for nonprofit hospitals to earn their tax exemptions by benefiting their communities in concrete ways, beyond just conducting their "business as usual." Many hospitals have cut back their traditional "charitable" works but still claim their rights to tax-exemption. In response, some of these institutions have been stripped of their tax exempt status by local authorities or pressured to make payments in lieu of taxes. A central challenge in these cases is whether the nonprofit hospital has earned its tax exemption by providing care to the indigent and uninsured.

### **What Are the Elements of a Good Community Benefits Process and Program?**

Ideally, health care institutions should be held responsible for providing some measurable level of community benefits and there should be a clear and community-accessible process for determining and evaluating community benefits. Some important elements of the process and the programs include the following:

- Involving the community in meaningful and principled ways in the process;
- Involving members of the community who are most affected by health-related and health access problems;
- Clearly identifying staff who are responsible for plan implementation;
- Conducting or participating in a community needs assessment;
- Establishing a community benefits budget;
- Setting clear goals;
- Having a process for evaluating progress in meeting those goals.

### **Should Communities Expect Health Care Providers to Address Every Problem Alone?**

No. Ideally, a community benefit process and the programs that result from that process involve many community members and organizations working together, with each contributing in some concrete way, according to their capacity. In the changing world of health care, no provider alone can address the entire problem of access to care (or other health-related needs) in the community. An effective and principled community benefit process is one involving many partners and leveraging as many local resources and strengths as possible in designing the programs to address the needs.

***For more information, please contact:***

Claudia Lennhoff, Executive Director  
Champaign County Health Care Consumers  
44 E. Main Street, Suite 208  
Champaign, IL 61820  
(217) 352-6533, xt. 11  
or  
claudia@shout.net