

May 25, 2006

Response of the Illinois Hospital Association and the Metropolitan Chicago Healthcare Council to CTBA Charity Care Report¹

- The basic underlying rationale for this study – comparing tax-exempt value to charity care and concluding that hospitals are not meeting their obligations to merit tax-exempt status – is simply wrong. The very title of the report reveals a fatal flaw in CTBA's analysis that infects their entire report. The title sets up the false premise that charity care (i.e., free or discounted care) is the only measure of tax-exemption.
- **The correct test for tax exemption is community benefits** – a combination of hospital services and activities that contribute to the well-being of the community. In fact, the report includes an appendix showing that the 21 hospitals and health systems studied provided community benefits of **\$1.59 Billion or more than FIVE TIMES the value of their estimated tax exemption value.** (See attached chart.)
- Try as they might to manipulate the data to support their pre-ordained results, they simply cannot hide the truth that hospitals are giving their communities far more than the value of their tax-exemptions.
- **Hospitals are deserving of tax-exempt status, and even accepting the flawed methodology and figures of this report, the report supports that fact:**
If you include Medicaid shortfall for the hospitals studied in this report (IHA estimate: \$214.3 million), along with charity care (\$105.2 million) and 50 percent of bad debt at cost (\$90.9 million), **that total amount (\$410.4 million) greatly exceeds the tax-exempt value of the hospitals as estimated in this report (\$314.2 million).** (See attached graph.) NOTE: HB5000 as supported by the Attorney General included Medicaid shortfall as part of the proposed charity care mandate.
- No Illinois court opinion has ever stated that charity care is the **ONLY** measure for qualifying for property tax exemption. In fact, as early as 1919, the Illinois Supreme Court made it clear that “charity, in the legal sense, *is not confined to mere almsgiving or the relief of poverty...The fundamental ground upon which all exemptions in favor of charitable institutions are based is the benefit conferred*

¹ Center for Tax and Budget Accountability, “An Analysis of the Tax Exemptions Granted to Cook County Non-Profit Hospitals and the Charity Care Provided in Return” May 2006.

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upon the public by them.” *Congregational Sunday School & Publishing Society v. Board of Review*, 290 Ill. 108 (Ill. 1919). This same principle was reaffirmed in

1940 in the case of *People ex rel. Hellyer v. Morton*, 373 Ill 72 (Ill. 1940), and both cases were cited by the Court in its 1968 decision in *Methodist Old Peoples Home v. Korzen*, 39 Ill.2d 149 (Ill. 1968).

- In determining whether a property is used for “charitable purposes,” the Illinois Supreme Court has applied a six-factor analysis. The cornerstone of this analysis is whether the entity is lessening the burdens of government. Hospitals are partners with government in serving as the foundation of our health care system. From rural communities to inner cities, communities recognize the critical benefits of having a hospital nearby. Without private hospitals, the state would have to step in to meet the public’s need for hospital care.
- “Granting charity to all who need and apply” is one of the six factors that the Illinois Supreme Court has used. However, this factor makes clear that the charitable exemption is based on the **availability of, not the quantity of, free care provided**. Simply comparing the quantity of charity care provided to the value of the tax exemption ignores 100 years of case law, Illinois Supreme Court decisions, and public policy.
- The report uses an inconsistent data methodology to develop an estimate of the value of these hospitals’ tax-exempt status. As a result, the report’s estimate of the hospitals’ tax liability is inflated. For example:
 - The study applied the City of Chicago’s 9% sales tax rate to all hospitals, even those located outside the City that would be subject to a lower sales tax rate, thereby overstating the value of the tax.
 - The study applied the 9% sales tax rate to all supplies, even though a 1% rate would apply to prescription drugs, food and consumable medical supplies, which are a major portion of hospital supply expenses.
 - Using only an income approach to estimate property tax liability does not take into account that local assessors use a more robust and accurate analysis that results in a lower market value of properties than the income only approach.
- The study disregards the Medicaid shortfall – the unreimbursed cost of providing Medicaid services – even though the report states: “Non-profit hospitals provide charitable services in addition to charity care that are not considered when determining state sales and local property tax exemptions. One such service is providing hospital care to Medicaid beneficiaries.” On average, Illinois hospitals are reimbursed for only 73 percent of the cost of treating Medicaid patients.

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- Illinois hospitals also relieve the burden on government by caring for Medicare patients at less than cost. On average, Illinois hospitals are reimbursed only about 93 percent of the cost of treating Medicare patients.
- The Report admits that at least 50% of hospital bad debt is provided to persons who likely would qualify for charity care. The reality is that most of a hospital's bad debt is provided to patients who are unable to pay. The bottom line is that bad debt represents care provided to members of the community for which the hospital is not paid.
- Statewide, in 2004, 104 hospitals, which filed community benefit reports, provided \$3.6 billion in community benefits.
- Even if one accepts the study's flawed methodology, its estimate that the state and local tax-exempt value of the hospitals studied is 3.4 percent of total hospital expenses is **well below the 8 percent charity care mandate** proposed by the Attorney General in HB5000.
- Illinois hospitals are committed to serving the health care needs of the people in their communities, regardless of their ability to pay, and are truly the health care safety net for the uninsured and our most vulnerable populations – the poor, the disabled, the young, the elderly and a growing number of middle class residents.
- Hospitals across Illinois provide many benefits to their communities, beyond charity care and beyond subsidizing government-sponsored health care, including:
 - money-losing services such as emergency care, trauma care, burn units, neo-natal intensive care units;
 - community clinics, immunizations, screenings and health education programs;
 - research to develop new drugs, treatments and prevention for a wide variety of illnesses;
 - training and education of our state's physicians, nurses and other health care professionals.
- To suggest that hospitals are not doing enough to serve their patients and communities or to deserve their tax-exempt status is misleading and does nothing to help policy makers and society work toward solutions to the critical, underlying problem – lack of coverage and access for the uninsured, including 1.7 million Illinoisans. Hospitals are committed to being part of the solution, but cannot shoulder this societal burden alone.

Attachments (2)

State and Local Tax Exemptions Compared to Charity Care and Total Community Benefit

Hospital/Hospital Network	Estimated Value of State & Local Tax Exemptions	Charity Care	Total Community Benefit
Advocate Health Care Network	\$79,032,570	\$20,267,000	\$245,583,000
Alexian Brothers Hospital Network	\$22,837,112	\$5,198,375	\$27,337,436
Evanston Northwestern Healthcare	\$22,980,617	\$9,905,463	\$142,223,192
Gottlieb Memorial Hospital	\$4,289,045	\$986,957	\$17,634,972
Holy Cross Hospital	\$4,018,838	\$1,661,892	\$26,092,653
Jackson Park Hospital	\$1,188,516	\$1,667,904	\$21,107,149
Little Company of Mary	\$8,736,578	\$2,288,368	\$34,810,425
Loyola University Medical Center	\$20,297,147	\$8,999,172	\$68,639,718
Mercy Hospital & Medical Center	\$3,781,966	\$3,388,818	\$14,415,282
Mount Sinai Hospital	\$2,852,605	\$4,477,500	\$75,899,900
Palos Community Hospital	\$7,792,176	\$3,570,000	\$53,921,839
Resurrection Health Care	\$44,858,697	\$13,871,149	\$391,697,165
Roseland Community Hospital	\$528,846	\$3,050,000	\$13,463,795
Rush North Shore Medical Center	\$5,533,584	\$388,000	\$16,659,564
Rush University Medical Center & Rush Oak Park**	\$22,425,246	\$2,520,552	\$126,083,264
Saint Anthony Hospital	\$4,468,575	\$1,460,349	\$14,472,574
St. Bernard Hospital	\$1,740,025	\$2,286,647	\$12,571,559
St. James Hospitals	\$14,496,194	\$6,615,164	\$47,000,080
South Shore Hospital	\$721,170	\$1,606,436	\$7,002,531
Thorek Hospital	\$3,277,231	\$1,208,000	\$3,171,539
University of Chicago Hospitals	\$38,395,267	\$9,751,414	\$231,648,457
Total	\$314,252,006	\$105,169,160	\$1,591,436,094

Source of Data:

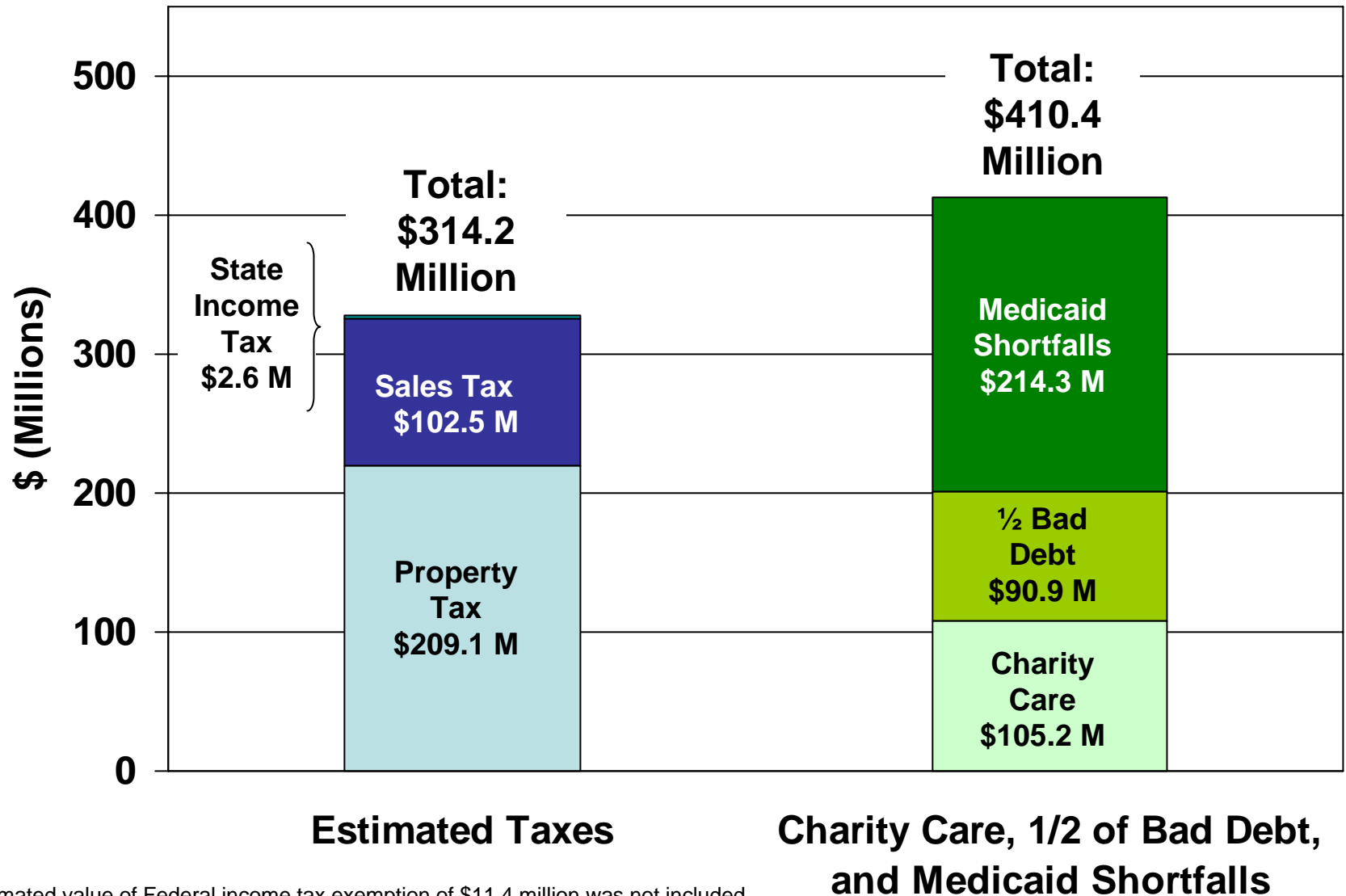
Center For Tax and Budget Accountability: An Analysis of the Tax Exemptions Granted to Cook County Non-Profit Hospitals and the Charity Care Provided in Return

Chart 3: State and Local Tax Exemptions Compared to Charity Care Provided, page 17

Appendix E: The Community Benefits Reported by the Hospitals Studied

**NOTE: The tax exemption value for Rush's hospital is incorrect. The study authors included tax exemptions for Rush University which includes Rush Medical College, the College of Nursing, the College of Health Sciences, and the Graduate College, in addition to Rush's hospital.

The Estimated Tax Benefits Received by Non-Profit Hospitals Studied, Compared to the Cost of Charity Care, 1/2 of Bad Debt, and Medicaid Shortfalls Provided



Estimated value of Federal income tax exemption of \$11.4 million was not included.