



## **Hospital Charity Care: Working Toward a Reasonable Approach**

Some wonder whether hospitals are providing sufficient benefit to the community to justify their exemption from taxes. IHA, on behalf of Illinois hospitals, is committed to showing that hospitals provide benefits to their communities far in excess of their tax exemption. The health care mission of hospitals is the most obvious community benefit hospitals deliver. But hospitals are also committed to treating their patients fairly and decently in providing financial assistance to those who need it. That is why in the Spring Session of 2006, the IHA negotiated an agreement with the Office of the Illinois Attorney General (OAG) to adopt standard practices for hospitals to follow with respect to billing, collection and financial assistance for those in need. Even before this law passed hospitals throughout Illinois have provided huge amounts of free and discounted care to patients in their communities.

**IHA supports reasonable charity care legislation.** IHA remains committed to working in good faith to find common ground with the OAG and others on the issue of hospital charity care. **Given the complexity and potential impact of any such legislation, it is essential that it be carefully studied and considered to ensure that it will not unintentionally jeopardize access to care. In July, the IHA presented a comprehensive legislative proposal to the OAG and in January met with the Attorney General to discuss this issue further. Consequently, please oppose any charity legislation, unless it is agreed to by IHA.**

**The Department of Revenue's (DOR) decision to revoke the property tax exemption of Provena Covenant Hospital will likely be overturned by the courts.** The Director's decision is flawed for the following reasons:

- *It inexplicably ignored the findings and conclusions of the judge who first heard the case and recommended granting the exemption.* Failing to say why the ALJ is wrong is simply inexcusable. It is particularly shocking in light of the thoroughness and thoughtfulness of that original decision. When faced with the choice of the ALJ's recommendation and the Director's decision, the courts are likely to uphold the ALJ because that ruling follows Illinois case law and properly applied it to the facts. The Director's decision does neither.
- *It directly contradicts Illinois Supreme Court precedent.* In revoking Provena Covenant's tax exempt status, the Director stated that the primary basis for his conclusion was that the amount of charity care provided by the hospital amounted to .7% of its revenue. But, the Illinois Supreme has ruled that, "A charity is not defined by percentages...."<sup>1</sup> Moreover, the ALJ's Recommendation states on p. 47, "The Supreme Court, therefore, specifically rejected the argument that the percentage of charity care should be determinative of whether an institution is entitled to a charitable purposes exemption."

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<sup>1</sup> *Quad Cities Open v. City of Silvis*, 208 Ill.2d 498 (2004)

**“Charitable purposes” not “charity care” is, and should be, the test for exemption.** The Director of DOR, and others, are confusing the test for property tax exemption by narrowly focusing on how much charity care – free or discounted care – the hospital gives away. However, the proper inquiry is whether the property is used for “charitable purposes”. The longstanding rationale for this approach, as stated by the Illinois Supreme Court, continues today:

“Charity, in law, is not confined to the relief of poverty or distress or to mere almsgiving, but embraces the improvement and promotion of the happiness of man. *A charity is a gift to the general public use which extends to the rich as well as to the poor....* The charitable nature of an organization depends upon whether its object is to carry out a purpose recognized in law as charitable, or whether it is maintained for gain, profit, or private advantage.... *The reason for exemptions in favor of charitable institutions is the benefit conferred upon the public by them, and a consequent relief, to some extent, of the burden upon the state to care for and advance the interests of its citizens.*” *People v. YMCA of Chicago*, 365 Ill. 118 (1937). See also, *Quad Cities Open v. City of Silvis*, 208 Ill.2d 498 (2004).

**Hospitals benefit their communities and relieve the State’s burden in a multitude of ways – not just with how much charity care they provide.**

- Reports filed pursuant to The Illinois Community Benefits Act show that **104 hospitals provided community benefits of \$3.6 billion** to their communities – far beyond the value of tax exemptions.
- Illinois hospitals provided **\$1.2 billion in uncompensated care** (that is care for which no payment was received) in 2004. Over 1.8 million Illinoisans lack health insurance and thousands more are underinsured.
- Illinois hospitals have adopted charity care policies for providing free and discounted care to patients based on their ability to pay.
- Medicare and Medicaid patients account for over half of the average hospital’s revenue and **on average, pay hospitals far less than the cost of treating these patients.**

**Imposing unreasonable mandates or taxes will harm the financial condition of hospitals leading to a reduction in services, new technology or improved facilities.** 60% of Illinois hospitals lose money on patient care. Thirty-four percent of Illinois hospitals are losing money on their operations and the average operating margin is only 2.1%. Even a non-profit hospital needs to generate enough revenue to pay its expenses or it eventually closes. Since 1994, 21 hospitals have closed in Illinois.

**IHA remains committed to working with the General Assembly and others to find solutions to meeting the health care needs of the uninsured. Given the complexity of this issue, we respectfully urge legislators to oppose any charity legislation unless it is agreed to by IHA.**

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