

# How to Help Non-Profit Hospitals Serve Better

Lee Wynja

Business and Economics Department

## Abstract

Whether to grant lucrative hospitals tax-exempt status is a controversial legal topic. Under the current law, non-profits must provide community benefit, a specific type of charitable giving, to maintain their tax-exempt status. The goal of this paper is to argue that hospitals' community benefit requirement should be strengthened and further specified. I plan to show that the non-profit hospitals can afford charitable contributions to surrounding communities, but such contributions are a small share of their expenditures. I propose two easy steps can be made to make the community benefit requirement meaningful. First, the Community Needs Assessment should be done every three years with an implementation progress report being made every year. This will keep hospitals accountable in their goals set forth by the Assessment. Next, there needs to be a clear basis for what classifies as a community benefit. With these two moves, hospitals will have less flexibility to abuse the guidelines set forth now and make meaningful contributions to surrounding communities.

## The Community versus the Hospital

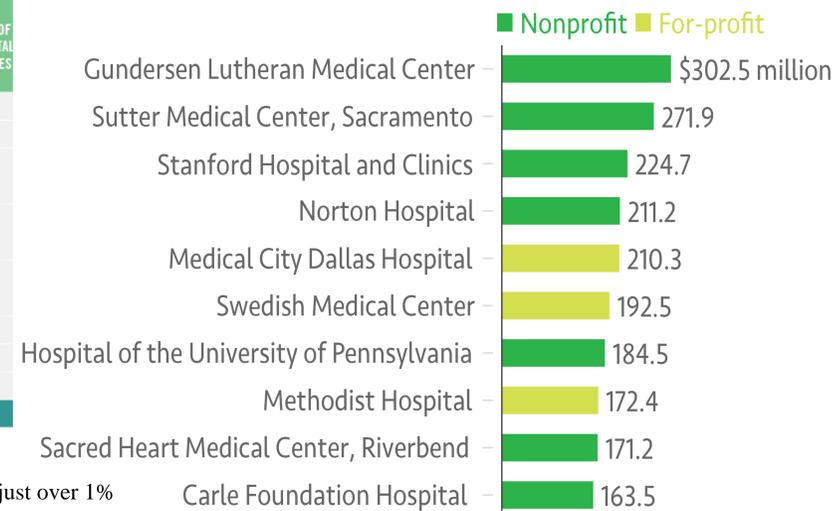
The stark contrast between the Cleveland Clinic and its surrounding neighborhood, shown below.



## The Problem

COMMUNITY BENEFIT CATEGORIES	TOTAL (DOLLARS)	AVERAGE % OF COMMUNITY BENEFIT EXPENDITURES	AVERAGE % OF TOTAL HOSPITAL EXPENDITURES
Charity Care	\$96,629,458	9.1%	1.3%
Unreimbursed Medicaid	\$536,292,658	50.4%	4.0%
Other Means Tested Government Programs	\$12,908,862	1.2%	0.1%
Community Health Improvement Services	\$47,137,597	4.4%	0.4%
Health Professionals Education	\$136,358,971	12.8%	0.4%
Subsidized Health Services	\$121,300,534	11.4%	1.3%
Research	\$15,951,185	1.5%	0.0%
Cash and In-kind Contributions	\$18,194,501	1.7%	0.2%
<b>Community Benefit Total</b>	<b>\$1,064,802,784</b>	<b>100%</b>	<b>7.5%</b>

Most profitable hospitals, fiscal year 2013



As shown above, actual charity care only accounts for just over 1% of total hospital expenditures and 9% of their community benefit expenditures.

## Is it Worth Fixing?

Reasons to let them maintain their tax-exempt status

- Community benefits non-profit hospitals provide may outweigh the foregone tax revenue. For instance, the ratio of community benefit to Federal tax forgone is 11:1.
- Removing their tax-exempt status may cause these hospitals to pull out of lower income areas and move to more affluent ones creating a massive loss of availability to emergency care.
- Many of these non-profit hospitals provide the vast majority of the jobs available in the surrounding communities. Mayo Clinic provides 167,000 jobs nationwide.

Reasons to take away their non-profit status

- Too many non-profit hospitals operate the same as for-profit hospitals. They operate for profit maximization, which should make them for-profit status with taxes.
- Taking their status away would force non-profit hospitals to become more efficient with spending and investments. For instance, it would also cause them to re-evaluate their inefficient branches, which may have social benefits.
- As of now, hardly any non-profit hospital provides enough community benefit or charity to justify tax exempt status. And clarifying community benefit rules may prove to be too difficult.

## Possible Solutions

Add accountability to the Community Needs Assessment

Right now, every Non-Profit Hospital has to do a community needs assessment every three years. However, there is no accountability to achieve those goals they make and ideas they have. Research shows that adding accountability increases the chance you will achieve your goals by up to 95% if done right, according to the American Society of Training and Development. This can be done a few ways:

- Require an implementation report every year
- Set a percentage of goals that must be met to maintain tax-exempt status
- Create an independent department whose purpose is to help hospitals define SMART goals in their assessment.

Give Directions on Re-investment of Profits

As seen above, many Non-Profit Hospitals make good profits. Those profits tend to be used in ways similar to For-Profit Institutions. Guidelines should be set up to direct the usage of those profits towards investments that reflect the primary goal of serving, improving, and creating communities that allow flourishing. As an example, here are some ways that could be used to increase the efficient use of their resources:

- Set a minimum percentage of operating expenses that have to be put towards community rebuilding activities.
  - Push for more upstream investments that attempt to tackle the root of the issues noted in the CNHA.
  - Set a ceiling on executive and administrative pay at market value.
- (All others would have to be signed off by their State government)

## Conclusion

Non-profit hospitals are as big and profitable as for-profit hospitals. Their spending patterns are similar as well. However, preliminary results suggest that taking away their tax-exempt status may not be socially optimal because their "community benefits" may outweigh the foregone tax revenue. The question became how we can reconcile their tax-exempt status with their profits. Under the current law, there is no one holding them accountable in completing the goals and ideas set forth in the Community Needs Assessment. Adding accountability should increase the odds goals are met. Moreover, if we give hospitals a more defined outline of what investments truly bring community benefit there will be less uncertainty and misuse of funds. These ways of introducing accountability alongside the already present incentive of tax-exempt status could help non-profit hospitals refocus on helping the communities they are in as their top priority.

## Sources

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