

# CENTER FOR TAX AND BUDGET ACCOUNTABILITY

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## *Examining Charity Care in Illinois*



For:

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Health & Medicine Policy Research Group

University of Illinois at Chicago

School of Public Health Auditorium

1603 W. Taylor Street, 1<sup>st</sup> Floor, Chicago, IL

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# CHARITY CARE IS THE THIRD LEG OF THE HEALTHCARE SAFETY-NET

- Medicaid/Medicare
- Public Health Facilities
- Charity Care delivered by Non-Profit Hospitals



- On March 18, 2010, the Illinois Supreme Court in *Provena Covenant Medical Center* confirmed the longstanding principle that “Charity” is:

**“a gift to be applied...for the benefit of an indefinite number of persons...for their general welfare, or in some way reducing the burdens of government.”**

- This has been law since the *Methodist Old People’s Home v. Korzen* (Illinois Supreme Court) decision in 1968.

# THE *PROVENA* DECISION

- **UPHELD THE LONG-STANDING RULE THAT CHARITY CARE IS**



**OR DISCOUNTED CARE PROVIDED TO ALL WHO NEED AND APPLY FOR IT.**

***Under Provena, three things that simply DO NOT count as Charity Care are:***

- Bad debt – uncollectible hospital bills
- Medicaid shortfalls – the shortfall between the amount providers are reimbursed and the cost of providing Medicaid services
- Community Benefits



**Charity Care differs from  
Medicaid/Medicare and the Public  
Healthcare System in One Key way:**

*It is NOT directly funded through the  
appropriation process*

# INSTEAD, IT IS FUNDED THROUGH TAX EXPENDITURES

Tax Expenditure is Indirect Public Spending thru the Tax Code: Government foregoes collecting tax revenue otherwise specified by certain taxpayers, in exchange for those taxpayers providing a particular public service.

# TO SUPPORT THE HEALTHCARE SAFETY-NET

- Tax breaks are granted to non-profit hospitals to pay for those hospitals “relieving government” of burdens by delivering specific public services.
- Note, the logic is clear: the public service has to be provided to reduce burdens of government in exchange for these private sector entities keeping public tax dollars they otherwise would have to pay.
- Otherwise, the public sector would just collect the tax revenue and spend it directly on providing services.

# THE FOUR PRIMARY TAX BENEFITS GRANTED TO ILLINOIS NON-PROFIT HOSPITALS

- 1. FEDERAL INCOME TAX EXEMPTION**
- 2. STATE INCOME TAX EXEMPTION**
- 3. LOCAL PROPERTY TAX EXEMPTION**
- 4. STATE AND LOCAL SALES TAX EXEMPTION**

Note, there are other tax benefits (tax-exempt bond financing, the receipt of tax-deductible charitable donations) non-profit hospitals receive which CTBA did not analyze. CTBA's study focused on tax expenditures because those directly impact the financial capacity of government to deliver services and are the subject of the bargain between government and the private sector.

# EXEMPTION FROM FEDERAL AND ILLINOIS STATE INCOME TAXES

- The IRS requires that non-profit hospitals provide a “community benefit” in exchange for federal income tax exemption. Community benefit is not defined— Medicaid/Medicare was going to fix everything.
- The Illinois State corporate income tax exemption follows this same community benefit standard.

# PROPERTY TAX EXEMPTION IN ILLINOIS

- *Provena* confirmed that Illinois law requires non-profit hospitals to provide charity care — free or discounted care — to low-income patients in exchange for exemption from paying local property taxes.

# THE STATE AND LOCAL SALES TAX EXEMPTION

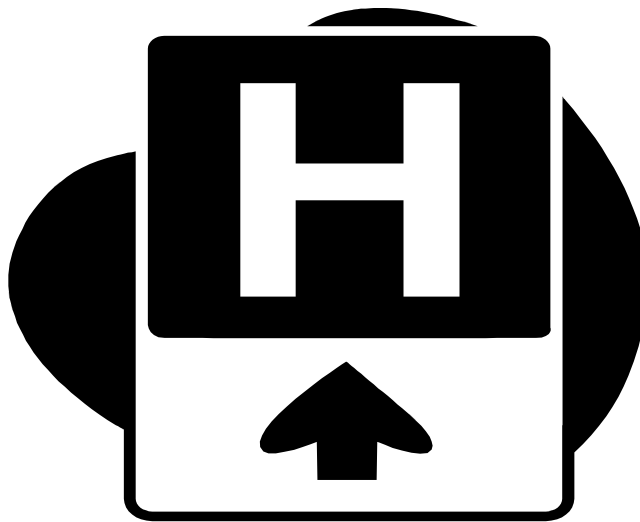
*The sales tax exemption uses virtually identical statutory language as the property tax exemption, meaning the same charity care standard applies.*

# GIVEN:

- Increasing Healthcare Costs
- Declines in Employer Provided Health Insurance
- Increase in Uninsured Populations
- “Structural Deficits” at State and County
- CTBA decided to review whether how the value of tax expenditures given correlated to the value of charity care provided

# CTBA's STUDY

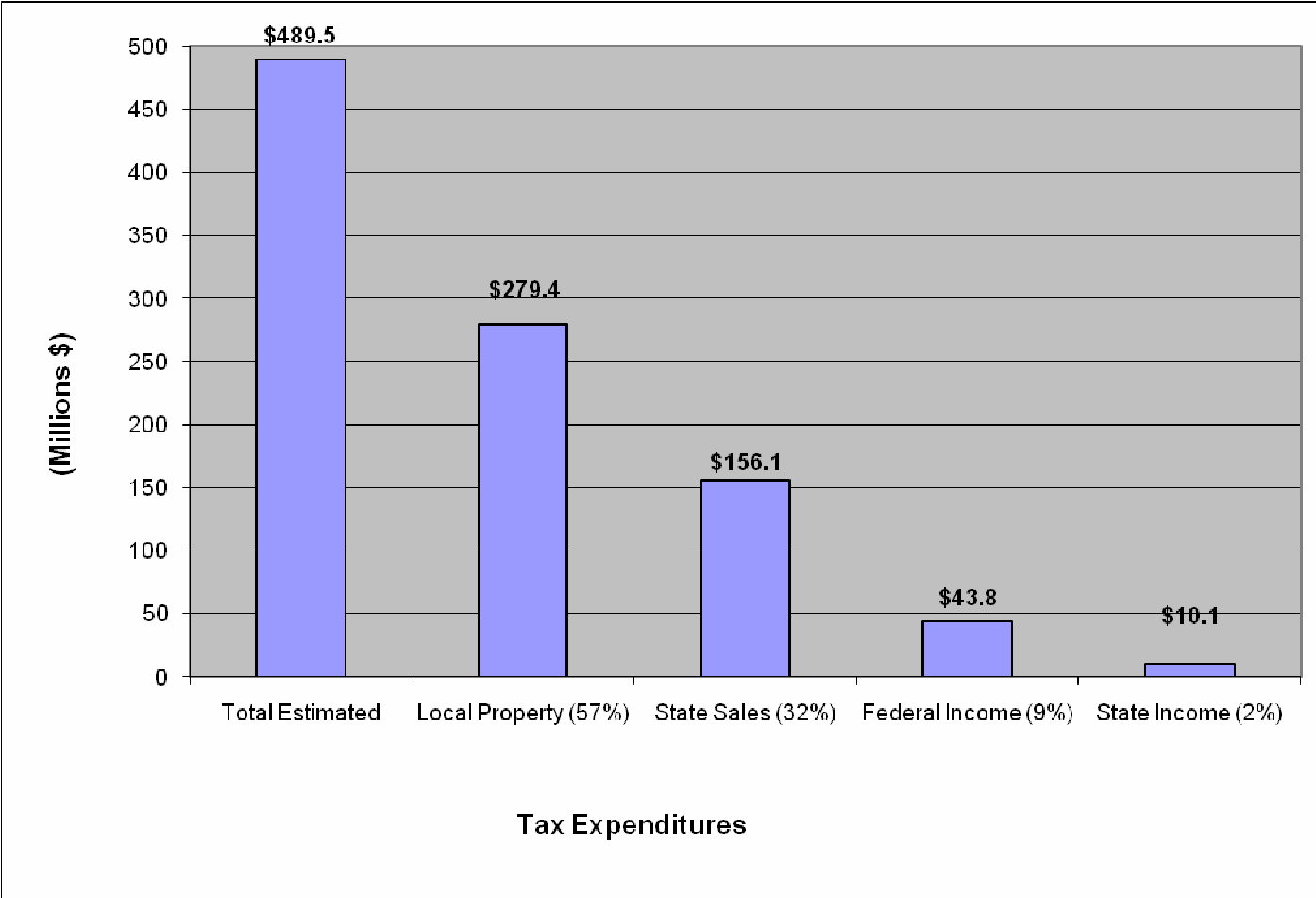
CTBA analyzed 27 Cook County non-profit hospitals and hospital networks—covering 47 total hospitals to determine value of tax expenditures versus value of charity care.



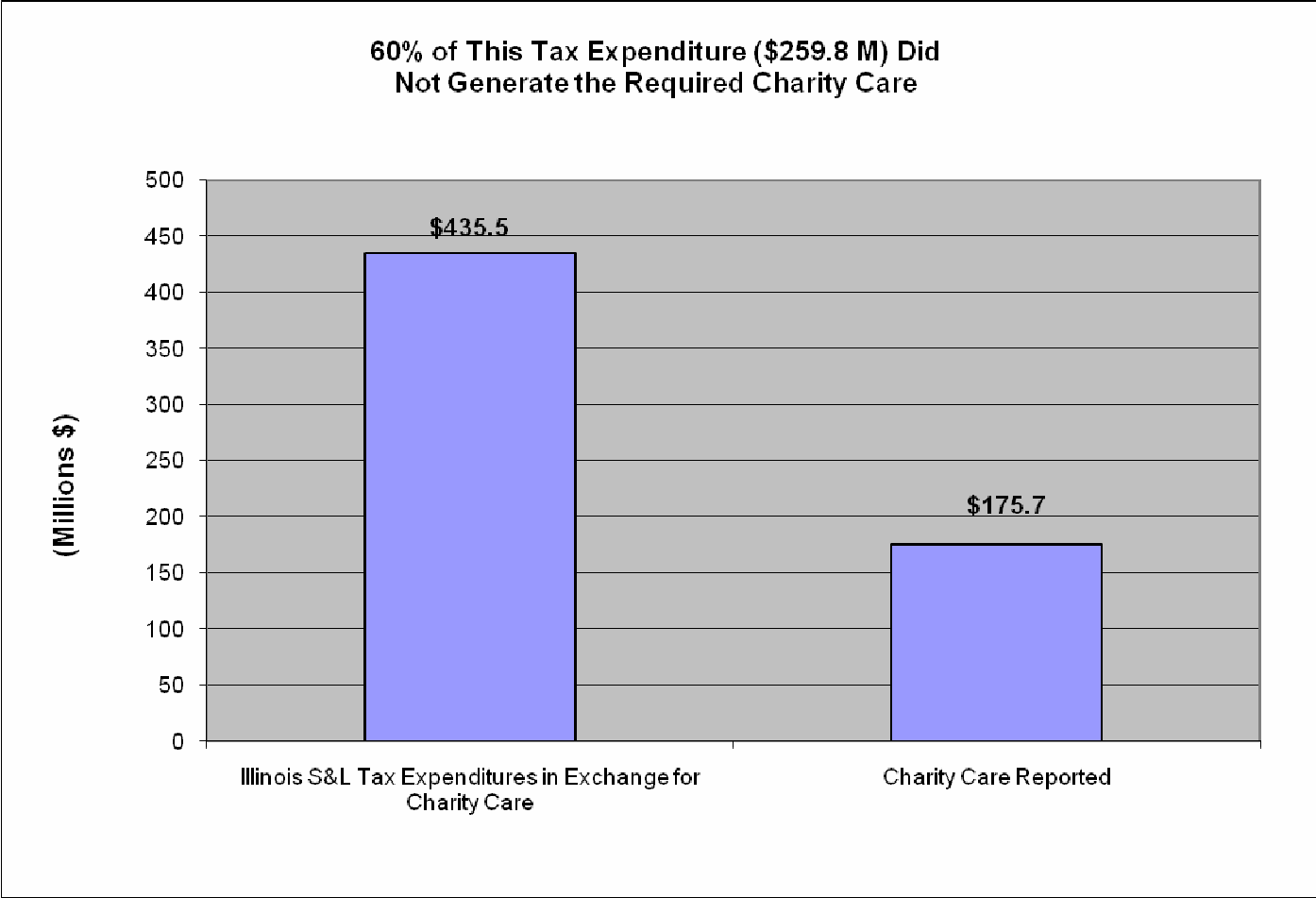
# CTBA'S METHODOLOGY

- CTBA applied the nationally-recognized model developed by Dr. Nancy Kane of the Harvard School of Public Health in estimating the value of the tax breaks granted to Cook County non-profit hospitals.
- Model chosen because it closely approximated value in areas that make property tax analysis.
- CTBA applied current federal and state law.

# CTBA'S FINDINGS



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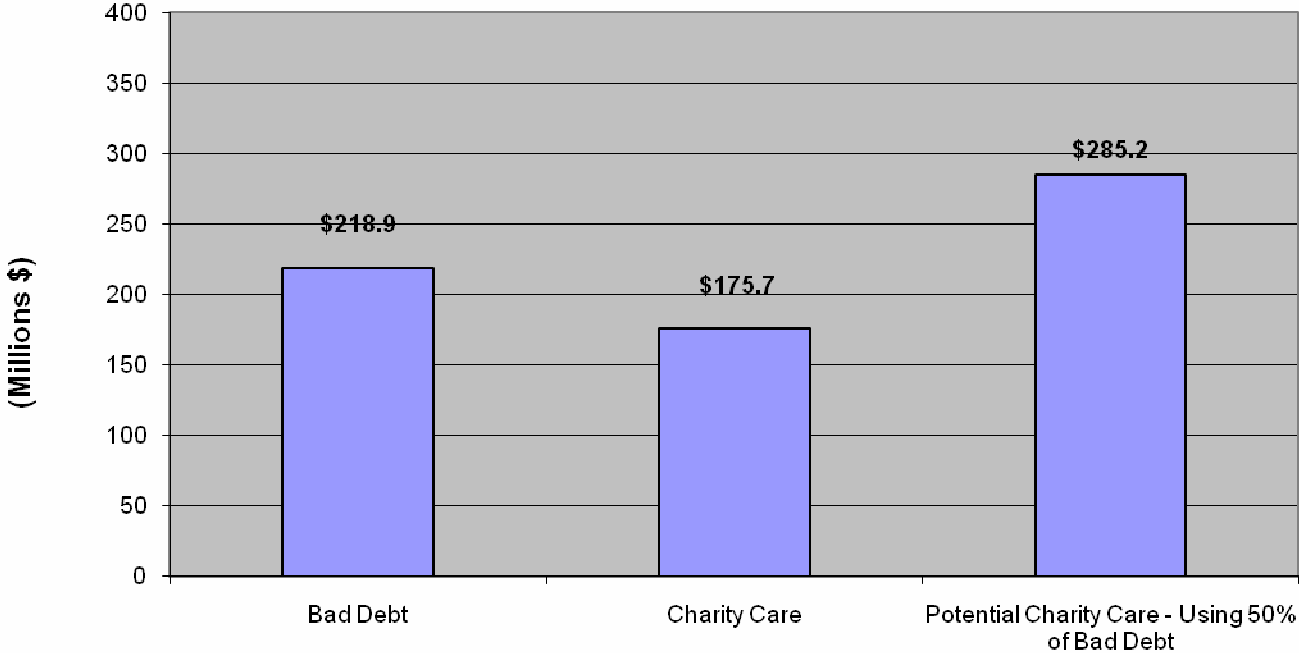


# CTBA'S FINDINGS

- Many experts estimate that *if* non-profit hospitals simply identified charity care patients on the front-end of the process rather than through the collection process, 50% of bad debt costs could qualify as charity care.
- Under this scenario, the non-profit hospitals studied could eliminate over 42% of the gap (\$259.8 million) between the value of the tax exemptions and charity care provided, *at no additional cost to the hospitals.*

# CTBA'S FINDINGS

Charity Care Can Increase by Over \$11 million - at no Cost to Non-Profit Hospitals - if 50% of Bad Debt is Applied to Charity Care



# A PROMISING TREND...

- Virtually all hospitals included in CTBA's 2009 Study that were analyzed in the 2006 Study *INCREASED* the amount of charity care provided over the last three years.

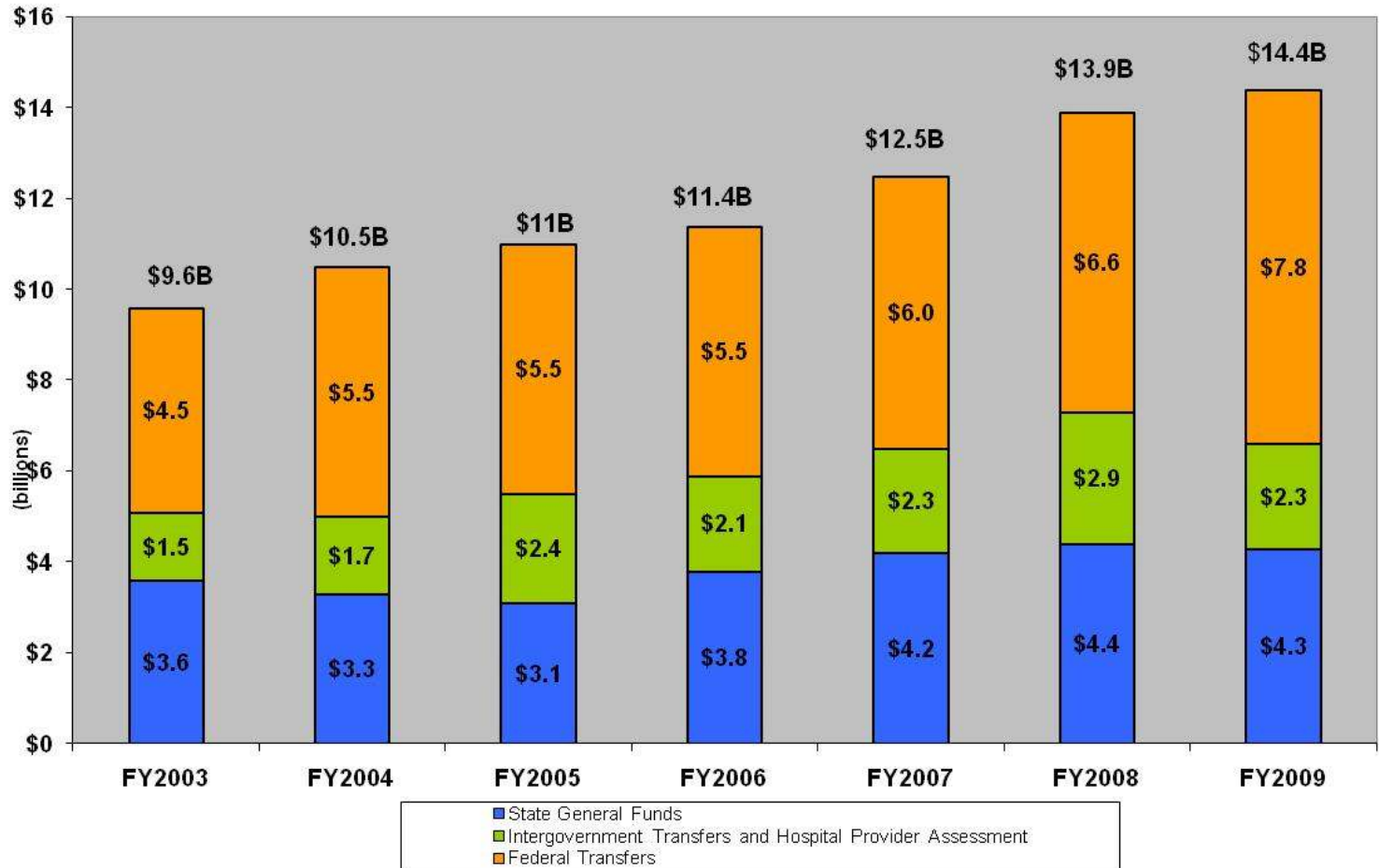


# WHY IT MATTERS

- The value of the property tax expenditure given non-profit hospitals of \$279.4 million is almost 40 percent (38.8%) of the total property tax levy actually made by Cook County of \$729 million.
- The value of the excess charity care-based tax expenditure of \$249.8 million would cover provided charity care to another 37,982 uninsured patients (based on U.S. Department of Health and Human Services national average cost of a hospital discharge).

## Oh & the FEDS — \$1.4 Billion Potential Cut

# MEDICAID SPENDING BY FUNDING SOURCE (FEDERAL, STATE AND LOCAL)



Data Source: National Association of State Budget Officers, Annual State Expenditure Reports.

# FOR MORE INFORMATION:

**CENTER FOR TAX AND BUDGET ACCOUNTABILITY**

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