

# Nonprofit Hospitals

## Statute Prevents State Agencies From Considering Community Benefits When Granting Tax-Exempt Status, While the Effects of Purchases and Consolidations on Prices of Care Are Uncertain

### REPORT NUMBER 2011-126, ISSUED AUGUST 2012

This report concludes that although state law requires most tax-exempt hospitals to prepare annual community benefit plans identifying the amount of benefits that the hospitals provided during the year, state law clearly states that the amount of community benefits provided cannot be used to justify the tax-exempt status of nonprofit hospitals. Additionally, we found that no statutory standard or methodology exists for hospitals to follow when calculating these benefits. Further, the four hospitals we reviewed have policies that qualify patients for full or partial charity care using different federal poverty levels, as allowed by the state law. Moreover, hospital officials believe that the income levels of patients visiting the hospitals are the reason that some hospitals have higher cost of uncompensated care, including charity care, despite employing the same policies as other hospitals that are part of the same organization.

Additionally, because of limited data we could not determine whether the changes in prices for health care services resulted directly from changes in ownership or operatorship of a hospital. Specifically, the unavailability of pricing data for some hospitals we reviewed and the unique codes the hospitals use to group medical services and related costs kept us from determining how changes in ownership or operatorship affected the prices of health care. Although three of the four hospitals reduced or discontinued some services, we also could not determine the effects on communities resulting from such actions. However, we did find that costs of uncompensated care increased after a change in owners or operators for three of the four hospitals we reviewed.

In the report, the California State Auditor (state auditor) made the following recommendations to the Legislature. The state auditor's determination regarding the current status of recommendations is based on legislative actions as of December 2012.

#### **Recommendation 1—See page 6 of the audit report for information on the related finding.**

If the Legislature intends for nonprofit hospitals' tax-exempt status under state law to depend on the amounts of community benefits they provide, it should consider amending state law to include such requirements.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

#### **Recommendation 2—See page 13 of the audit report for information on the related finding.**

If it expects each nonprofit hospital to follow a standard methodology for calculating the community benefits it delivers, the Legislature should either define a methodology in state law or direct the Office of Statewide Health Planning and Development (Health Planning) to develop regulations that define such a methodology.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 3—See page 27 of the audit report for information on the related finding.**

If the Legislature intends to ensure compliance of all hospitals required to submit community benefit plans to Health Planning, it should consider revising state law to allow Health Planning to assess a penalty to those hospitals that do not comply.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.