CALIFORNIA STATE AUDITOR
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FACT SHEET

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The California State Auditor released the following report today:

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

BACKGROUND

Nearly 300 nonprofit licensed health facilities can be exempt from paying the State's corporation income taxes and property taxes and in exchange, these nonprofit hospitals assume a social obligation to provide community benefits in the public interest. These benefits can include activities such as health care services rendered to vulnerable populations for which hospitals are not fully compensated (like charity care) or medical research and education. The Franchise Tax Board, county assessors, and the State Board of Equalization grant the tax exemptions, while the Office of Statewide Health Planning and Development (Health Planning) collects various information that hospitals are required to provide and makes the information available to the public.

KEY FINDINGS

During our review of the community benefits provided by nonprofit hospitals with tax exempt status and the purchase or consolidation of nonprofit hospitals, we noted the following:

- Although most tax-exempt hospitals must prepare annual community benefit plans that identify the amount of benefits provided during the year, state agencies cannot use the community benefits to justify the tax-exempt status.
- Neither federal nor state law requires nonprofit hospitals to deliver a specific amount of community benefits to qualify for tax exemptions.
- Because there is no standard methodology for calculating the costs associated with uncompensated care, the four hospitals we reviewed use different methods to calculate and report the cost of health care services that they provide that are not compensated.
- Although each of the four hospitals' charity care policies provide at least partial charity care to patients with incomes at or below 350 percent of federal poverty level, each uses different income levels when determining whether patients qualify for charity care and thus, the same family that receives free medical care at one hospital may have to pay a portion of its medical bill at another.
- We could not determine whether changes in ownership or operatorship of nonprofit hospitals affected the medical services and the prices of such services the hospitals provide due to limited data. However, the amount of uncompensated care generally did not decrease after the purchase of the hospitals we reviewed.
- Health Planning adequately monitors hospitals' submissions of required data; however, it cannot penalize those hospitals that fail to submit the required community benefit plans.

KEY RECOMMENDATIONS

We made several recommendations to the Legislature including that it consider amending state law to include requirements about the amounts of community benefits if it intends to tie the hospitals' tax-exempt status to the amount of community benefits they provide. We also recommended that the Legislature either define a methodology in state law for calculating community benefits each hospital delivers or direct Health Planning to develop regulations that define such a methodology. Further, the Legislature should consider revising state law to allow Health Planning to assess penalties to hospitals that do not submit required community benefit plans.