

Hospital Community Benefit

Accounting for Impact

FEBRUARY 2020

What comes to mind when you picture a hospital?

Typically, we think of care provided by doctors, nurses, and others in a clinical setting. We don't often consider the outreach and support that hospitals provide in their communities.

This support can take many forms, including financial assistance, help with housing, increased healthy food access, and educational opportunities. Nonprofit hospitals provide these services in exchange for federal, state, and local tax exemptions. This requirement, known as the hospital community benefit, refers to initiatives, activities, and investments undertaken by nonprofit hospitals to improve health in the communities they serve.¹

Hospitals have engaged in community benefit activities for decades. However, Medicaid expansions resulting in less need for charity care — coupled with inconsistent regulatory oversight — have led legislators, government agencies, and others to question whether hospitals are doing enough to justify their tax breaks.

In 2019, Colorado passed House Bill 1320, which aims to increase community benefit transparency and accountability by bolstering reporting requirements for nonprofit hospitals. These new requirements include reports on hospitals' most recent Community Health Needs Assessments (CHNAs), implementation plans for the following year, and other details on community benefit activities.

New research shows that this is likely to result in greater community benefit investments by hospitals. But how should this money be spent, and will it help communities in measurable ways? The answer to these questions depends on how this legislation is carried out and whether implementation ensures that spending truly addresses each community's specific needs.

Key Takeaways

- In exchange for their tax-exempt status, nonprofit hospitals are expected to provide a "community benefit," yet in some states such as Colorado, there has historically been little guidance or accountability surrounding this requirement.
- In 2019, Colorado lawmakers passed new legislation that will increase transparency — and potentially, spending — on community benefit.
- This could raise annual spending by nearly \$120 million, creating new opportunities for hospitals to participate in community health.

Defining Community Benefit

A majority of hospitals are designated by the Internal Revenue Service as nonprofit organizations and therefore exempt from most federal, state, and local taxes. In Colorado, 46 percent of hospitals are nonprofit. (Another 29 percent are owned by state or local governments.)²

Since 1969, the federal government has required nonprofit hospitals to provide a community benefit to justify this tax-exempt status. Community benefit — though not explicitly defined by federal statutes or regulations — can include financial assistance

to patients, unreimbursed costs associated with Medicaid and other public coverage, and even benefits not related to direct care such as community health improvement activities, health professions education, research, and cash and in-kind support to community groups and organizations.³

Historically, hospitals fulfilled much of their community benefit requirement by providing free emergency and acute care to people who couldn't afford to pay.⁴ In Colorado, the value of uncompensated care in the form of charity care or "bad debt" — what the hospital lost on nonpaying patients — was estimated at \$700 million in 2013, the year before major Affordable Care Act (ACA) provisions went into effect.⁵

When the ACA expanded public and private health insurance options in 2014, more coverage was expected to mean less uncompensated care. And indeed, the state uninsured rate hit an all-time low of 6.5 percent in 2019, according to the Colorado Health Access Survey.⁶ With hospitals providing less uncompensated care to uninsured Coloradans, these charity care and bad debt expenses dropped 56 percent to \$305 million in 2018.⁷

Anticipating these decreases in financial assistance spending, the ACA added four new requirements for nonprofit hospitals:

- Conduct a CHNA with a related implementation strategy;
- Establish a written financial assistance policy for emergency and medically necessary care;
- Adhere to specified billing and collections requirements; and
- Comply with certain limitations on hospital charges for people eligible for financial assistance.⁸

But these new requirements have done little to establish how much hospitals should spend on community benefit as a whole. Spending varies greatly by hospital — for example, in 2014, hospitals across the country spent an average of 8 percent of their total expenditures on community benefit, but this ranged from less than 1 percent to 18 percent.⁹

In the Conversation

HB 1320 requires that a variety of state and local entities be involved in hospital community benefit discussions. These include:

- Local public health agencies
- Local chambers of commerce and economic development organizations
- Local health care consumer organizations
- School districts
- County, city, and town governments
- Community health centers
- Certified rural health clinics or primary care clinics
- Area Agencies on Aging
- Health care consumer advocacy organizations
- Colorado Department of State
- Colorado Department of Public Health and Environment
- Colorado Department of Human Services
- Colorado Commission on Higher Education
- Office of Saving People Money on Health Care
- The general public

HB 1320: Hospital Community Benefit Accountability

Because federal laws are broad, most states impose additional requirements on hospitals.¹⁰ In 2019, Colorado joined these states by passing House Bill 1320, which went into effect immediately.

In addition to creating a CHNA and community benefit implementation plan, hospitals are now required to submit community benefit activity reports to the Colorado Department of Health Care Policy and Financing (HCPF). HCPF must make these reports available to the public. Reports will include each hospital's most recent CHNA and community benefit implementation plan as well as information about the hospital's community benefit investments during the previous year.

In addition to this increased reporting and transparency, HB 1320 defines three categories of community benefit: charity care, programs to change people's health behavior or risk, and programs to address social determinants of health. Hospitals must report on their spending in all three categories.

To increase stakeholder participation, hospitals are required to convene a public meeting at least once a year to gather feedback on the previous year's community benefit activities and on the following year's community benefit implementation plan. Hospitals must advertise the meeting in a major newspaper and invite the general public as well as representatives from entities such as school districts, state departments, and local government.

A hospital can convene a joint public meeting with one or more other hospitals that serve part or all of the community. Joint meetings can boost stakeholder participation and promote the exchange of best practices and strategies to address community needs.

A New Colorado Approach Could Bring New Spending

Making community benefit information more accessible — one of the primary provisions in HB 1320 — will likely spur increased scrutiny of community benefit investments by the public, legislators, and others who are directly impacted by hospitals. The law gives stakeholders tools to hold hospitals accountable for their investments.

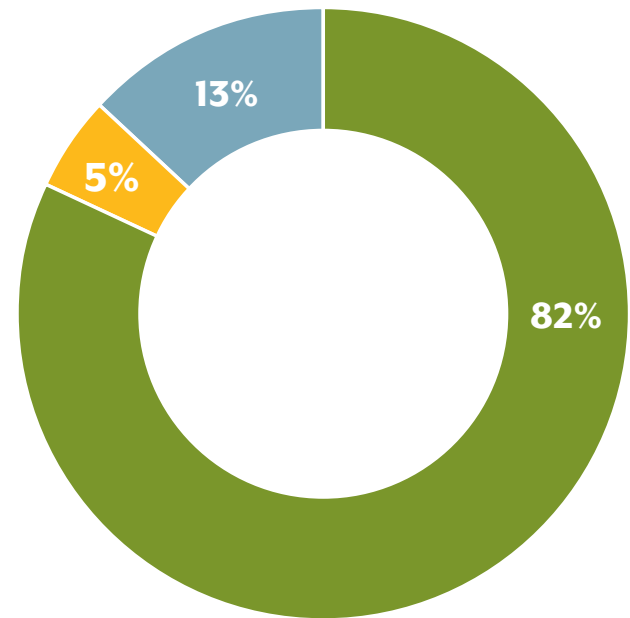
Although HB 1320 does not set spending requirements, the experience of other states suggests that Colorado will see higher community benefit spending as a result of the new law. Simply put, increased accountability — like that mandated by HB 1320 — leads to greater and more diverse investments by hospitals in the communities they serve.

This is evidenced by recent analyses of the impact of state laws on nonprofit hospital community benefit spending. A state requirement that hospitals publicly report their community benefit spending is associated with greater outlays (an additional \$13.50 per \$1,000 of the hospital's total operating expense).¹¹

And these rules are especially effective when it comes to spending on community health services rather than direct care provision; more than half of the

Figure 1: Most of Colorado's Community Benefit Spending Goes to Direct Uncompensated Care

Community benefit spending by Colorado nonprofit hospitals, 2018



- Unpaid Patient Care
- Charity Care
- Health Screenings, Education, and Other Community Benefit Activities

Source: Colorado Hospital Association and CHASE Annual Report

additional dollars go to services such as research and community health improvement activities.

In 2018, Colorado hospitals provided more than \$3.1 billion in community benefit, with \$2.7 billion attributed to unpaid patient care costs (\$153 million in charity care and \$2.5 billion in underpayments from Medicaid and other government programs) and \$400 million in health screenings, education, and other community activities (see Figure 1).^{12, 13}

If the new law also increases community benefit spending by \$13.50 per \$1,000 in operating expenses, hospitals across the state would increase community benefit spending by an additional \$118 million — more than twice the budget of the state's division of housing.¹⁴ But will these dollars be spent effectively?

Looking Ahead: Best Practices and Success Stories

Given the potential increase in community benefit spending due to HB 1320, how does Colorado ensure the money goes to services that meet community needs and improve health, thereby justifying hospitals' tax-exempt status?

HB 1320 creates various mechanisms to address this challenge — providing structure to reporting requirements that identify community needs, specifying how hospitals plan to meet them, and revealing how much hospitals intend to spend on specific benefits. Any given hospital's goals will be dictated by the findings of its CHNA, with the goal of making it responsive to its community's specific health needs.

Many hospitals are taking steps to reallocate a portion of their community benefit spending toward activities that more broadly promote community-wide health.¹⁵ Some themes in successful community benefit activities include directing financial resources to community health priorities, increasing and measuring community engagement, directly addressing health equity and structural injustice, and addressing social and economic health determinants.¹⁶

Some hospitals have had great success in diversifying their community benefit spending even before HB 1320. For example, in 2014, Centura Health's St. Mary-Corwin Medical Center in Pueblo sponsored farm stands every Saturday to provide fresh, affordable produce for nearly 1,000 families whose health was at risk due to limited access to healthy food choices. Moreover, two doctors at the hospital initiated walks around nearby Lake Minnequa before the farm stand opened, motivating walkers with coupons for free produce, pedometers, and T-shirts.¹⁷

Children's Hospital Colorado has had similar success in this arena. In 2016, the hospital began screening for food insecurity in its Child Health Clinic, which involved training staff to ask questions to understand the severity of the problem. Families who screen positive for food insecurity are connected to Hunger Free Colorado to help them apply for food assistance programs. Children's Hospital also formed a Food Security Council, a multidisciplinary group that works with Hunger Free Colorado and community partners. The council's vision is that by 2023, "at least

90 percent of Colorado's vulnerable children will have access to timely, quality and affordable food that meets their health needs."¹⁸

There are also examples of hospital engagement around housing:

- Bon Secours Baltimore has taken a broad approach to community investment, developing more than 700 affordable housing units for individuals and families.
- Children's Mercy Kansas City developed an extensive Healthy Homes program to provide environmental health assessments and repairs and renovations.
- And Denver Health sold a once-occupied office building to the Denver Housing Authority, which will hire staff to assist tenants with housing-related issues. Once renovations are complete, the hospital will, in turn, provide a case manager to help residents address their physical and behavioral health needs.¹⁹

Public health professionals generally agree that addressing the social, economic, and environmental factors that affect health is critical. Figuring out how to pay for these efforts is challenging, however, since most health dollars reimburse providers for medical and behavioral health treatment.

Community benefit spending could provide a reliable source of funding for addressing the social determinants of health.

Conclusion

Hospital community benefit spending is an important approach to improving community health, but questions remain. Now that Colorado has increased reporting requirements for hospitals and opportunities for public input, will this lead to higher community benefit spending? If so, is there a proven way to determine if this spending is effective and results in better health across communities?

One thing is certain: HB 1320 creates greater hospital accountability and fosters increased community participation in the process. Hospitals also have the opportunity to take a closer look at existing best practices. With multiple structures and resources now in place, hospitals can look to each other and their communities for guidance on directing resources to the greatest needs.

Endnotes

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