



BEYOND CHARITY CARE



MISSION MATTERS FOR TAX-EXEMPT HEALTH CARE

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ABSTRACT

THE CATHOLIC HEALTH ASSOCIATION IS PLEASED to present *Beyond Charity Care: Mission Matters for Tax-Exempt Health Care*. This monograph describes the significant contribution of mission-driven, tax-exempt hospitals and health care systems and addresses two critical questions lawmakers and others have raised over the past year: How do nonprofit hospitals distinguish themselves as charitable institutions? Should nonprofit health care organizations continue to be tax exempt?

To address these questions, CHA asked health care lawyer J. David Seay to revisit issues he and Bruce Vladeck raised in the 1987 United Hospital Fund document, *Mission Matters: A Report on the Future of Voluntary Health Care Institutions*, and to validate whether the distinguishing characteristics they identified in that report—values, governance and accountability, long-term commitment, physician-hospital relationship, and institutional voluntarism—are applicable today. Using research and discussions with Catholic health care leaders, David Seay affirms that the mission of nonprofit health care continues to be distinctive and advises policy makers to preserve tax exemption of mission-based nonprofit health care.

In his commentary on the paper, Bruce Vladeck, advises that because nonprofits have not always lived up to social expectations, it is the responsibility of the nonprofit health care sector to advocate and promote clear expectations. That is one of the goals of this publication.

FOREWORD

IN AN ENVIRONMENT IN WHICH PUBLIC DISCOURSE too often takes the form of sound bites and attack ads, the trustees and managers of nonprofit health care organizations face a difficult challenge responding to criticism of their institutions, or of the nonprofit community as a whole. For the very essence of governance and management in charitable organizations is a continuing balancing between the ideal and the real, between goals and constraints, between the desired and the possible, all while remaining faithful to core values and principles which may conflict with social or marketplace pressures. Nonprofit health care organizations exist to serve the loftiest of goals, but they operate in a complex and conflictual world in which not everyone shares those goals, and many pursue competing interests. The gap between aspirations and actuality is ever-present, though of constantly changing dimensions.

David Seay's thoughtful and wide-ranging review of the basis for tax exemption and other privileges long granted to nonprofits provides a valuable, and extremely timely, resource for leaders of the nonprofit health care community in responding to these contemporary challenges. He reminds us that the uniqueness of the nonprofit form is not only deeply rooted in this nation's history, but multi-dimensional in its rationale and its expectations. Perhaps most critically, he captures directly the extent to which fidelity to the legal obligations and social expectations for nonprofits is a process, not a simple quantitative test at a single point in time.

Of course, not all nonprofits have always lived up to that standard; effective advocacy on behalf of the nonprofit health care community also entails articulation of criteria and expectations, and criticism of those who fail to meet them. But the heart of the argument is a reaffirmation of the reasons such institutions exist, the purposes for which they were created and for which society grants them special status, and the fundamental legitimacy of continual, sincere efforts to shrink the gap between the ideal and the real. Such a reaffirmation should not only assist leaders of the nonprofit health care community in waging the day-to-day battles of their social and political environments. It should also, on reflection, provide comfort, reassurance, and maybe even a small sense of satisfaction.

Bruce C. Vladeck, PhD
Interim President, University of Medicine and Dentistry of New Jersey
Former President, United Hospital Fund
Administrator, Health Care Financing Administration

INTRODUCTION

“Today, while Catholic health care and other nonprofit health care institutions excel in quality, innovation, and technology, they remain community benefit organizations, founded and sustained because of community need. Our doors are open to everyone regardless of faith, ethnic background, or ability to pay. We treat all patients – uninsured and insured – with the same dignity, respect, and compassion. Our mission includes special attention to low-income and minority populations, and we reach out to fill a void that exists for many of our disabled, elderly, and chronically ill neighbors. We pay particular attention to promoting health and preventive care for all who reside in our communities. We do not provide these services to justify continued tax exemption. We provide them because serving our communities in this way is integral to our history, our identity, and our mission – it is what we have always done.”

Sister Carol Keehan, DC
Catholic Health Association of the United States
Washington, DC

MISSION-BASED, TAX-EXEMPT HOSPITALS and health care systems are an invaluable asset and resource to people and communities in 21st century America, as they have been throughout the nation’s history. They continue to warrant the positive benefits of tax-exempt status.

Hospitals and systems in the Catholic tradition have a special responsibility to join with other leaders in the tax-exempt hospital and health care community to get the facts out about the true nature and character of these important and valuable institutions and to make the case, in positive terms, why they should be seen in the light they deserve. This Catholic Health Association of the United States (CHA) resource is designed to do that and to help elected officials and other policy makers better understand the tax-exempt health care sector.

This resource shows why laws and other public policies that recognize the public-serving nature of mission-driven, community-based health care are still valid. In it, author and health care attorney J. David Seay describes the legal basis of tax exemption, examines recent research, and revisits the five distinguishing characteristics of nonprofit health care organizations identified in the 1987 United Hospital Fund publication *Mission Matters: A Report on the Future of Voluntary Health Care Institutions*. These characteristics are: values; governance and accountability; long-term commitment; hospital-physician relationships; and voluntarism. It is important to note that not all Catholic-sponsored, faith-based, or nonprofit organizations exhibit behavior reflecting all of these distinguishing characteristics in the same way. But by sponsoring this publication, illustrated by the words and actions of Catholic health care leaders to provide a rich context for their mission to serve communities nationwide, the Catholic Health Association reaffirms its commitment to advocate and promote clear expectations for the nonprofit health care sector.

COMMUNITY BENEFIT: HISTORY AND PROPER FOCUS

IT IS A VERY REAL POSSIBILITY that at least some of the contemporary questions and challenges to tax-exempt, nonprofit health care result from misunderstandings about the correct legal standard by which certain hospitals and systems are exempt from taxation in the first place. There is little understanding that the correct legal standard for exemption is community benefit, rather than the more narrow relief-of-poverty criterion.

The most profound and immediate misperception that springs from this view is that in the eyes of the public and policy makers, the perceived standard is seen as the provision of charity care — and in amounts sufficient enough to justify the dollar value of the tax exemption. That concept is both simple and easy to grasp, since many people equate “charity” with efforts to relieve the burdens of poverty in society.

Historically, many charitable organizations have been exempt for this purpose. Yet many other actions fall into the other traditional areas of charitable activity. Museums, libraries, colleges and universities, scientific research, and other worthy pursuits are not charged with helping vulnerable populations or those living in poverty. Yet these institutions are also considered as non-taxable private activities in pursuit of a broader public good. In 1995 the National Health Lawyers Association (now the American Health Lawyers Association) published a Colloquium Report, “Legal Issues Related to Tax Exemption and Community Benefit.” In it they observed, “For four decades the IRS has employed special rules for judging whether a hospital merited 501(c)(3) charitable exemption. The first rules were published in 1956 in Revenue Ruling 56-185, or the ‘financial ability’ or free care standard as it came to be known. . . . The ‘financial ability’ standard proved difficult to enforce. It was far from a model of clarity.” The report also noted that “the passage of the Social Security Amendments of 1965, which created Medicare and Medicaid, transformed millions of the elderly and poor into paying customers for hospitals. . . . In that Great Society Era, many believed that charity care was a thing of the past. . . . This proved to be wildly off the mark, but the optimistic belief left its imprint on a major policy change the IRS set forth in 1969 for tax-exempt healthcare providers: the community benefit standard.”

The Internal Revenue Service, in its Revenue Ruling 69-545, stated that hospitals may qualify as charitable organizations if they engaged in the “promotion of health.” It was in this context that the “community benefit standard,” long understood as a basis for charitable tax exemption, was articulated by the IRS. While it has not provided extensive guidance on its Revenue Ruling, it has stated that a hospital satisfied the community benefit standard if it:

- *Operates an emergency room open to all without regard to ability to pay*
- *Maintains a board of trustees composed of independent civic leaders*
- *Maintains an open medical staff*
- *Participates in Medicare and Medicaid*
- *Uses surplus funds to improve the quality of patient care, expand facilities, and advance education and training programs*

In the absence of more clarity and guidance from the government, the Catholic Health Association has been providing such guidance on its own to its members and others. CHA, in cooperation with VHA, Inc., developed guidelines which define community benefit as:

Programs or activities providing treatment and/or promoting health and healing that are responsive to identified community and public health needs, not provided for marketing purposes, and meeting at least one of the following criteria:

- *Generate a low or negative margin*
- *Respond to needs of special populations*
- *Supply services or programs that would likely be discontinued (or would need to be provided by another not-for-profit or government provider) if the decision were made on a purely financial basis*
- *Respond to public health needs*
- *Involve education or research that improves overall community health*

The guidelines include as community benefit:

- *Community health improvement services (community health needs assessments, health promotion, free clinics, other services for the poor and broader community)*
- *Health professional education*
- *Research*
- *Charity care*
- *Unpaid cost of Medicaid and other government indigent care programs*
- *Subsidized services*
- *Community building activities (such as housing and economic development)*
- *Financial contributions to community*

Simply put, community benefit—the basis for tax-exemption—means more than just providing quality care to people who happen to find their own way to the hospital. It also means going beyond the walls of the hospital, reaching out and seeking to identify unmet community or public health needs and undertaking to meet them. Community benefit means behaving in a manner that intentionally benefits not just the hospital but the entire community. That behavior can be seen in a wide variety of actions and decisions, including the mix of medical services the hospital or system chooses to offer, where they choose to locate or to remain, which patient populations they choose to serve, and other manifestations of intent.

Community benefit, while simple in concept, is also complex in the many ways it can be pursued. Community benefit is not something that is done with whatever excess revenue-over-expenses a hospital or system has left over at the end of the year, although it may choose to spend those funds for additional, discrete community benefit programs. Community benefit is more than that.

Anyone considering changes in public policy should be informed of the nature and character of tax-exempt community hospitals and health systems, and consider any such changes in a rational manner consistent with the law and a rich tradition of community service. Those hospitals and systems within the Catholic tradition—seeing health care as a ministry of Jesus Christ—are leaders who shine that light upon their own experience and also cast it in the direction of others within the nonprofit health care community. It is important that this leadership become even stronger at this time, as few can speak with more experience and authority than these leaders themselves.

WHAT THE RESEARCH SHOWS: WHO OFFERS WHAT MEDICAL CARE

“We support services that are not money makers and that struggle to break even or even lose money. Behavioral health is an example. In Colorado Springs, we have the only inpatient psychiatric unit and have maintained that even though it has been a loser in terms of profitability. We maintain it for mission because there is a need for mental health services and I don’t know what would happen if we were to close it. I do know that if we were a for-profit we would have closed it for sure. We also have the largest level-one trauma unit in the state, in Denver, and that is another service that is fiscally marginal yet badly needed.”

P. Terrence O’Rourke, MD
Centura Health
Englewood, CO

PROFESSOR JILL R. HOROWITZ of the University of Michigan Law School in Ann Arbor, and a faculty research fellow at the National Bureau of Economic Research in Cambridge, MA, has conducted extensive econometric analyses of American Hospital Association data for every urban, acute care hospital in the United States from 1988 through 2000. (“Making Profits and Providing Care: Comparing Nonprofit, For-Profit and Government Hospitals,” *Health Affairs*, 23 (3), May/June 2005, and testimony before the U.S. House of Representatives Ways and Means Committee, May 26, 2005.) She categorized more than 30 different medical services as relatively profitable, unprofitable, and variable based upon a wide range of economic data from multiple sources.

What Professor Horowitz found is striking, although not inconsistent with the previous research and evidence. *Government and tax-exempt community hospitals are more likely to offer the relatively unprofitable, yet valuable and essential medical services.*

So, what exactly do individuals and families get from tax-exempt community hospitals and systems?

Professor Horowitz’s research clearly shows that if people and their communities value and want to have available in their communities obstetric services, emergency rooms, trauma centers, burn units, psychiatric services, alcohol/drug services, and HIV services, as well as home health care and skilled nursing services, they are well served by their nonprofit, tax-exempt hospitals. An examination of nonprofits that takes a narrow look only at charity care will not reveal these rich and significant community benefits of providing these needed services.

St. Frances Cabrini, St. Patrick, Schumpert and St. John Hospitals located in Louisiana and Texas, together operate a total of twenty-five School Based Health Centers (SBHC) serving more than 14,000 children in neighborhoods with the greatest need for access to health care. The program sets goals for and monitors daily attendance and yearly immunizations.

But why is this? Why do the tax-exempt community hospitals and systems choose to behave the way they do? Answering that question will be the key that unlocks deep and profound differences in the basic character and behavior of mission-driven, community-oriented, nonprofit health care. Interviews with Catholic health care leaders indicate that these differences are the result of intentional decisions relating to mission that result in different behaviors and outcomes. The 1987 United Hospital Fund publication *Mission Matters: A Report on the Future of Voluntary Health Care Institutions* identified five distinguishing characteristics of nonprofit health care organizations: values; governance and accountability; long-term commitment; hospital-physician relationships; and voluntarism. These observations and characteristics provide both context and guidance as these important policy issues are revisited.

These vital characteristics should be, but are not always, present in all not-for-profit, tax-exempt health care organizations. But these characteristics, which historically have defined nonprofit health care and remain prevalent today, are the standard to which CHA and other tax-exempt community health care organizations should aspire.

As the largest emergency food pantry in Northern New England, the Sisters of Charity Health System’s Good Shepherd Food Pantry has been providing emergency food assistance to residents of Lewiston and Auburn, ME, for more than 20 years. The Food Pantry’s typical clients are single heads of households with children, as well as the elderly.

Catholic facilities’ dedication to the common good often leads them to offer traditionally “unprofitable” services such as alcohol and drug abuse treatment, psychiatric services, emergency and trauma services, HIV/AIDS services, and palliative care.

2005 American Hospital Association Annual Survey

“In our system we set aside money every year to make grants for community projects. In St. Louis, we fund an obstetric service that serves mostly poor women who cannot afford to deliver their babies. In Hot Springs, AR, we identified a need for an advocacy center for abused children and undertook to create it. In the first 18 months, we served 600 children. It is not the decisions about services – to initiate, maintain, or cease – that distinguishes faith-based nonprofits. Rather it is the corporate decision-making process used to make decisions, such as purpose, mission, abiding convictions, and values. These define why and how we serve in health care.”

Sister Mary Roch Rocklage, RSM
Sisters of Mercy Health System
Chesterfield, MO

VALUES: HEALTH CARE IS NOT A COMMODITY

“Community benefit really requires managing simultaneously to two bottom lines: the fiscal health of the organization and the physical and public health of the people in the community. We in the nonprofit health care arena understand that within the marketplace, there is also a community and social responsibility.”

Ann Neale, PhD
Georgetown University Medical Center
Washington, DC

“We use a process called Values Impact Analysis for important decisions. We have used the same process when planning to add a clinical service or drop a service or close a facility. It makes us cognizant of our mission and values, and it helps us balance clinical decisions with financial decisions. Community benefit has got to be the core reason we are in business.”

P. Terrence O'Rourke, MD
Centura Health
Englewood, CO

The provision of health care is an inherently value-driven enterprise. No matter how monetarized health care has become or how transformed the American system of providing it appears to be, there are still very personal and very human aspects of the relationship between a medical practitioner and a patient, and between a health care institution and a patient, that cannot be quantified, analyzed in economic terms, or adequately explained by means of regression analysis.

Mission Matters: A Report on the Future of Voluntary Health Care Institutions

VALUES SHAPE THE WAY any organization, including a hospital or health system, approaches its mission. Those values are reflected in all aspects of the enterprise, including the decision-making process that determines the mix of services and activities a hospital or system undertakes and offers. As difficult as the contemporary health care marketplace is, tax-exempt hospitals and systems face a very delicate and difficult task because their values reflect goals that most often are not rewarded in the marketplace, including most aspects of community benefit activities. Beyond the marketplace, even government does not pay the full costs of care provided to Medicaid and often Medicare patients.

Viewing health care as both a marketplace phenomenon and a social good makes the task that much more difficult, indeed complex and challenging. These public-serving institutions must both make a go of it financially, as well as strive to promote a public good that is not fully funded by government, society, or the marketplace. This is a unique and self-imposed role and set of values.

Healthy Start/Healthy Families Oakland, an initiative of St. Joseph Mercy Oakland, MI, has been providing specialized services to first-time parents for 10 years. On a weekly basis, 15 highly trained family support specialists make home visits to some 250 families.

GOVERNANCE AND ACCOUNTABILITY: RESPONSIBLE TO PEOPLE AND COMMUNITIES

The critical linkage between the values of particular communities and the day-to-day operations of a complex health care organization is provided by the governing body of a voluntary institution. Institutional trustees are accountable to a standard of fiduciary stewardship that embodies the complex set of expectations communities have towards health care and that, at the same time, requires a constant balancing of competing pressures. This form of governance, when properly observed, constitutes in itself a principal strength of the voluntary sector.

Mission Matters: A Report on the Future of Voluntary Health Care Institutions

HOW ORGANIZATIONS ARE GOVERNED, and to whom they are accountable, also shape who they are and what they do through governance and form, decisions, and behavior. Hospitals are no exception; in fact, they represent particularly complex and compelling examples of how corporate structure, governance, and accountability affect behavior and outcomes.

The nonprofit governance form, as well as the IRS rules governing 501(c)(3) charitable status, work to ensure local community oversight and transparency in the operation of these organizations and hold them accountable to a standard of mission and service that is right for their particular communities. It is appropriate that these types of decisions are made locally, through the voluntary boards of trustees of these tax-exempt health care providers. It is part of their unique nature and character and essential to their ability to provide a full range of community benefits to the individuals and families they serve.

“Nonprofit governance was never set up to be efficient. It was set up to ask the right questions and to deliberate them. Community benefit requires the boards of directors of the tax-exempt community hospitals and systems to be stewards of community-based resources for the benefit of the community; they must budget for community benefit which is a prospective investment. In a word, community benefit is responsibility.”

David R. Lincoln
Covenant Health Systems
Lexington, MA

Catholic health care providers serve a significant percentage of persons who rely on Medicaid and other indigent care programs. In light of declining reimbursement rates from these government sources, these facilities often face financial stress.
2005 American Hospital Association Annual Survey

STAYING THE COURSE

“The biggest challenge for us is to continue to be creative in finding ways to stay the course in our commitment to health care for all, and to stay the course when times are tough. It isn’t superficial; it isn’t just a job.”

Sr. Karin Dufault, SP, RN, PhD
Supportive Care Coalition
Portland, OR

“Community benefit is defined as improving the health of the community. The tax-exempt, nonprofit hospitals and systems locate in or stay in areas of greater need and more difficulty even though that is seen by some as financially counter-intuitive.”

**Sr. Theresa McGrath, CCVI
and Donna M. Meyer, PhD**
CHRISTUS Health
Houston, TX

If health care is a vital community service, then there is considerable value in the simple fact of a health care institution being in the community and staying in the community. In many inner-city neighborhoods and many small towns, the supermarkets have closed, the banks are long gone, and most other retail businesses are shuttered, but the hospital is still there.

Mission Matters: A Report on the Future of Voluntary Health Care Institutions

AN ORGANIZATION’S TIME FRAME—a commitment to short-term market fluctuations or longer-term focus on community health needs—is also instructive when one looks to see the core character of organizations and how they operate. Making a commitment to a community for the long haul brings its own set of responsibilities and burdens. But along with it can come the valuable time needed to build the human, community, financial, and political support necessary to stay the course over time, even as communities and demographics shift and change.

Tax-exempt community hospitals and systems reinvest whatever earnings they are able to achieve back into their communities in an effort to support this long-term commitment. A long-term commitment to a community or communities requires adroit fiscal creativity to survive and serve. Such creativity is captured in the words of the leadership of such hospitals and systems.

The Bon Secours Health System Mission Fund provides funding to innovative and collaborative initiatives that support the development of holistic health and well-being, particularly for disenfranchised and marginalized people in communities served by Bon Secours.

RELATIONSHIP WITH PHYSICIANS: SHARED RESPONSIBILITIES

Perhaps the most difficult and complex aspect of voluntary health care institutions, particularly voluntary hospitals, is their potential for creating a special environment for and relationship with physicians, thus managing the problem of professional autonomy in medicine and cultivating a tradition of caring. Patients and communities are better served by hospitals that are more than just a doctor’s workshop. Voluntary hospitals’ management and trustee leadership have long worked in partnership with physicians, and in the most successful instances, they have created a delicate but vital balance between institutional imperatives and professional independence.

Mission Matters: A Report on the Future of Voluntary Health Care Institutions

HOW A HOSPITAL OR SYSTEM RELATES to its physicians and organized medical staff—in recruiting, selecting, credentialing, and retaining staff, and sharing goals—is also crucial to success in pursuing mission. Pursuing a community benefit mission requires hospitals and systems to look for a different set of services for their communities in addition to the profitable types of services that can help keep the organization afloat. That means establishing from the beginning, and maintaining over time, a different sort of relationship with physicians.

Organizational culture plays a crucial role in expressing the mission and expectations of the hospital or system. The tax-exempt culture results in tangible examples of community nonprofit hospital and system partnerships with physicians designed to achieve shared community responsibilities.

More than a quarter of Catholic hospitals are located in rural areas. They are often the sole provider of community health services. These facilities face unique challenges such as amplified recruiting and funding concerns.

“Overwhelmingly, nonprofit hospitals participate in teaching and research activities. Among the ethical duties that form part of the Hippocratic Oath for physicians is the duty to teach others about the science and art of healing. My own hospital management experience, including at a Catholic teaching hospital in Boston, has shown me that physicians tend to feel a greater commitment to the charitable mission of a hospital when they connect to their colleagues and other hospital staff as part of a formal teaching environment.”

Paul A. Hattis, MD, JD, MPH
Tufts University Medical School
Boston, MA

“A critical part of mission is working with physicians to collaboratively select the mix of medical services that is right for the community being served. Community benefit really comes down to being committed to the greater good of the community. The numbers on charity care and other programs are only part of it.”

Dale M. Thompson
Benedictine Health System
Duluth, MN

Examples include hospitals with policies and agreements with their medical staff that if the hospital extends charity care to a patient who needs it, the physicians will, too. This is frequently seen with hospital radiologists and anesthesiologists, but occurs in other areas as well. There are also examples where hospitals encourage their physicians to cover emergency rooms and free or sliding-scale clinics that serve uninsured and underinsured individuals and families in their communities. Also, there are myriad examples of community collaborations that involve hospitals, physicians, and community groups where both primary care and specialty physicians agree to perform outreach services to the community and serve low-income and other community residents in need of medical care.

There is also the value brought to communities when these community hospitals work to attract the necessary advanced practitioners to their areas, including specialty physicians and allied health professionals normally not supported by such markets. This is another example of how tax-exempt community providers reinvest the financial fruits of their work back into the benefit of their communities.

Catholic health care leaders realize that the physicians for whom such community service is an important part of their own ethics and practice tend to gravitate toward tax-exempt community hospitals and health systems. These differences are captured in the experiences of their leaders and medical staff.

Mercy Housing and seven Catholic health systems established a partnership in 1998, recognizing that access to quality, affordable health care and housing are essential to the health of every community. Nine partners in 19 states are now included in the partnership, and approximately \$1 billion in real estate assets completed and in development.

INSTITUTIONAL VOLUNTARISM AND PHILANTHROPY

Volunteering has been, and apparently continues to be, a source of civic betterment, community improvement, and social solidarity. Institutions and organizations that are natural objects of, or outlets for, volunteers, and that serve as a locus for these important social resources, have an important part in this process. Voluntary hospitals in particular, and other voluntary health care institutions in general, have long been—and mostly continue to be—primary focal points of this sort of institutional embodiment of voluntarism, and of the values held by those who volunteer. . . . The influence of philanthropy, once the primary hallmark of the voluntary endeavor, cannot be ignored either. . . . Philanthropy represents another, often especially tangible, way in which institutions and communities bind themselves to one another.

Mission Matters: A Report on the Future of Voluntary Health Care Institutions

ORGANIZATIONS ALSO ARE SHAPED by the expectations of and contributions to them by the people they serve. Voluntary organizations are characterized by, among others things, the people from the community who volunteer their time, talent, and financial contributions to the organization. Tax-exempt hospitals and systems are surrounded by volunteers, from the boards of directors, auxiliaries, in-service volunteers, and volunteer-run fundraisers to donors and the families and friends of the people whose health care needs are served by these institutions. The voluntary nature of the boards of directors of tax-exempt hospitals and health systems is essential to the core voluntarism of the sector. It is inherently linked to their distinguishing characteristics of volunteer governance, community accountability, and “ownership.” Such nonprofit entities thus serve as both voluntary institutions themselves, in service to the community, and as a place where individuals and families from the community can volunteer and “give back” to the communities in which they live.

Rosary Hill, founded in 1901, is a 72-bed skilled nursing facility operated by the Dominican Sisters of Hawthorne in New York state. The home is dedicated to providing palliative care to persons with incurable cancer. No payment of any kind is accepted from patients or their families, or from the government. Over the past 100-plus years, the Dominican Sisters of Hawthorne have lovingly served the special end-of-life needs of patients and their family members.

“One of the benefits of this sector is that it does have volunteerism. It is these volunteer board members and others, it is these people who are working and not getting paid that is the key to making it unique. Yet they bring the business skills and they bring the entrepreneurialism to it that makes it special.”

Michael D. Connelly
Catholic Healthcare Partners
Cincinnati

TAX-EXEMPT COMMUNITY HEALTH CARE: REAFFIRMING THE CASE

“The community benefit tradition in Catholic and other nonprofit health care organizations is thriving and being reinforced by efforts to better account for these activities and to evaluate their effectiveness. Our long-term commitment to the people in our communities is being demonstrated every day, but we strive to do better. We believe that the nonprofit health care sector and the communities we serve continue to deserve tax exemption, and that it is the responsibility of our organizations to demonstrate this to their governing bodies, staff, and communities.”

Sister Carol Keehan, DC
Catholic Health Association
of the United States

TAX-EXEMPT HOSPITALS AND HEALTH SYSTEMS are facing challenges to their tax status for perceived failures to live up to a charity care standard that does not exist in federal law. The current legal standard, community benefit, is a good and more rigorous criterion for exemption. It requires a commitment to overall community health, including, but not limited to, low income persons, which the more narrow charity care criterion would lack. The full magnitude of the distinguishing characteristics of tax-exempt health providers is not made clear by focusing solely on the financial measures of charity care. Community benefit means both providing quality hospital services and going beyond the walls of the traditional hospital to improve community and public health.

Mission-driven, tax-exempt hospitals and health systems provide valuable benefits to the individuals and families in their communities, however variously valued and accounted for, and continue to deserve the benefit of tax exemption and other public policies that recognize this distinct and different form of organization and behavior.

Great strides have been made from within the nonprofit health care community to better define community benefit, account for it, and report it to the public and policy makers. These efforts will continue to be hallmarks of the Catholic health ministry tradition as well as for other tax-exempt, mission-driven, community benefit hospitals and systems across the country.

Catholic health care systems and facilities are present in all 50 states. These health care providers pursue their healing mission not only through the medical services they provide but also through community outreach.
2006 Official Catholic Directory

By recognizing the distinguishing characteristics of tax-exempt hospitals and health systems, public policy makers will have a better understanding of how and why these organizations serve the public good. The guiding principles for consideration of these characteristics include:

- *The legal basis of tax-exemption is, and historically has been, more than the relief of poverty. It includes a broader and often more valuable benefit to the community.*
- *Tax-exempt hospitals and systems reinvest earnings back into their communities.*
- *The contribution of nonprofit health care, known as community benefit, extends well beyond the walls of hospitals and includes reaching out, identifying, and addressing unmet community and public health needs.*
- *The community orientation of nonprofit organizations is the result of intentional decisions related to the organization's values and mission.*

Leaders in Catholic health care join in solidarity with other tax-exempt hospitals and health systems in advocating the continuation of tax exemption of nonprofit health care based on the community benefit standard. By working to inform and engage elected officials and other public policy leaders, they hope to ensure that a proud American tradition of care and compassion is preserved for the 21st century and beyond.

Mercy Ministries of Laredo, TX, was established as a new expression of the Sisters of Mercy long-standing commitment to respond to the needs of the Laredo community, following the sale of Mercy Health Center. An important component of Mercy's mission to serve people in need, Mercy Ministries of Laredo includes primary health care services; a domestic violence shelter and education center; a nutrition assistance program; and advocacy and social services.

FOR FURTHER READING:

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