

Public hospitals carry burden of charity care despite big tax breaks for nonprofits

By Sandy Kleffman
Contra Costa Times

POSTED: 10/23/2011 12:01:00 AM PDT

The East Bay's nonprofit hospitals receive millions of dollars in tax breaks each year to care for the poor and uninsured, yet they provide only a fraction of local charity care, a Bay Area News Group analysis reveals.

The responsibility of caring for the indigent falls largely on the region's public hospitals, which struggle under the weight.

County-owned Contra Costa Regional Medical Center in Martinez, propped up by a nearly \$40 million annual public subsidy, spent 23 percent of its operating expenses on charity care in 2010. The nonprofit John Muir Medical Center in Walnut Creek, in comparison, spent 1.7 percent.

Similarly, in Alameda County, the county-owned Highland Hospital in Oakland spent more than 15 percent of its operating expenses on charity care, while the nonprofit Alta Bates Summit Medical Center spent 2.4 percent.

Debate has intensified nationally about whether nonprofit hospitals do enough to justify their lucrative, tax-exempt status.

"We are giving literally millions of dollars of tax breaks to major hospital chains, and what are we getting in return?" said Anthony Wright, executive director of Health Access California, a consumer advocacy group.

-more-

In August, Alameda County Supervisor Wilma Chan and Senate Majority Leader Ellen Corbett, D-San Leandro, won legislative approval for a state audit that will examine the issue at a sampling of California institutions.

"We're doing this because there are some nonprofit hospitals in our area that we feel have probably not adequately fulfilled their charity care obligations," said Chan, who declined to name the institutions.

Whether the hospitals are flouting the terms of their nonprofit status is hard to say, because federal and state laws contain only hazy guidelines about what the hospitals must do to qualify for tax breaks.

To shed light on the debate, the Bay Area News Group analyzed charity care at East Bay hospitals in two ways. It looked at what percentage of operating expenses each hospital devotes to charity care. It also computed countywide charity care totals and looked at how the total is divided among the hospitals.

Charity care refers to free or discounted hospital services delivered to low-income, uninsured patients.

In Contra Costa, the county hospital alone accounted for more than 75 percent of the countywide charity care total in 2010.

The county's six nonprofit hospitals together provided slightly less than 23 percent.

Doctors Medical Center in San Pablo, a district hospital, delivered 1.3 percent of the total, and the East Bay's only for-profit hospital, San Ramon Regional Medical Center, provided 0.2 percent.

In Alameda County, Highland accounted for more than 53 percent of the countywide charity care total in 2010.

All told, Alameda County's nine nonprofit hospitals provided slightly less than 43 percent.

-more-

The two district hospitals delivered 3.9 percent.

The nonprofit hospitals note that they spend millions of dollars each year on other services such as mobile health vans, free screenings, no-cost surgeries for low-income people, support for clinics and community programs, educational classes and medical research.

"Charity care is extremely important to us, but it's just one component of our overall community benefit," said Dr. Steve O'Brien, vice president of medical affairs at Alta Bates Summit Medical Center in Oakland and Berkeley.

Hospitals in wealthier areas also argue that fewer uninsured patients seek to use their services.

Because John Muir's facilities are in Walnut Creek and Concord, it tends not to get as many people who lack coverage as hospitals in lower-income areas, said Lynn Baskett, executive director of the John Muir Community Health Alliance.

In the neighborhoods around Pleasanton's ValleyCare Health System, the median family income is more than \$120,000, notes Ken Jensen, chief financial officer.

"We can't force people to come here for charity care," Jensen said.

But patients can travel, countered Contra Costa Supervisor John Gioia.

"All of these hospitals are in counties that have large numbers of patients who need hospital services and can't pay for them," Gioia said. "So the argument that you're located in a high-income area doesn't hold water."

Gioia leads the board overseeing Doctors Medical Center, which is striving to avert its second bankruptcy in five years.

-more-

"We could lose an important institution in West County if there isn't a more equitable sharing of charity care services," Gioia said.

The Bay Area News Group computed statewide charity care averages and examined institutions in Alameda and Contra Costa counties using hospital financial reports filed with the state.

An analysis of charity care as a percentage of each hospital's operating expenses reveals:

- Five of the East Bay's nonprofit hospitals have charity care levels well below the statewide nonprofit average of 2.99 percent of operating expenses.
- Charity care rose dramatically at the two county hospitals from 2005 to 2010. At Contra Costa Regional, it jumped from \$57 million to \$81 million. At Highland, it rose from \$27 million to \$59 million.
- St. Rose Hospital in Hayward, despite recent financial struggles, had the highest level of charity care among nonprofits at 5.9 percent of its operating expenses, or nearly double the state average.
- Charity care has declined sharply at the nonprofit Sutter Delta Medical Center in Antioch, dropping from \$5.5 million in 2005 to \$4.2 million in 2009 to \$2.1 million in 2010. The 2010 amount is 1.3 percent of the institution's operating expenses.

Sutter Delta spokeswoman Angela Juarez-Lombardi said the hospital has lowered its charity care costs by signing up more than 700 uninsured patients for Medi-Cal coverage during a 13-month period. The hospital also operates an urgent care clinic for the uninsured next to its emergency department that sees more than 5,000 patients annually.

-more-

The stakes in the debate are high. Nationwide, nonprofit hospitals enjoy tax exemptions estimated at \$12 billion to \$20 billion annually.

Sen. Charles Grassley, R-Iowa, is among those who have called for more scrutiny of nonprofits, urging the IRS to investigate whether the institutions do enough to justify their tax breaks.

Grassley once suggested requiring nonprofit hospitals to devote at least 5 percent of expenditures to care for the poor, but he backed off that idea this year, saying that setting minimums could discourage some institutions from doing more.

The East Bay hospitals with charity care levels well below the statewide nonprofit average of 2.99 percent of operating expenses were:

- John Muir in Walnut Creek at 1.7 percent.
- John Muir in Concord at 1.5 percent.
- Sutter Delta at 1.3 percent.
- Alta Bates Summit in Berkeley at 0.9 percent.
- ValleyCare in Pleasanton at 0.6 percent.

Children's Hospital Oakland had a charity care level of 1.2 percent, but its numbers are not necessarily comparable because more children than adults are insured and so do not need charity care.

Nonprofit hospitals were required on their 2009 IRS forms for the first time to estimate the value of their broader community benefits, in addition to charity care. But what can go into such tallies has been vigorously debated.

Consumer advocates question the validity of including costs such as medical research, educational programs and services the hospitals may offer to attract patients.

-more-

"Some of these things are very nice and good and helpful, but a lot of things also end up being marketing for the hospital, whether it be showing up at fairs or handing out a car seat to a pregnant woman" to encourage her to deliver at the hospital, Wright said.

The hospitals respond that it is unfair to judge them on charity care alone. John Muir estimated its community benefits at more than \$37 million in 2009, including free breast and cervical cancer screenings for nearly 500 low-income women, a mobile health clinic and a \$1.6 million annual donation to a community health fund.

Gioia praises John Muir and Kaiser Permanente for helping keep Doctors Medical Center open. After Doctors declared bankruptcy in 2006, Kaiser donated \$12 million to the hospital over three years and John Muir contributed \$3 million.

This year, as Doctors again teetered on the verge of bankruptcy, Kaiser gave \$4.2 million more.

The Bay Area News Group could not compile comparable charity care numbers for Kaiser hospitals because the nonprofit health system does not file annual financial reports like other hospitals.

Kaiser estimated it invested more than \$1 billion in programs and services that benefited communities statewide in 2009, including more than \$18 million in contributions to such Northern California institutions as Asian Health Center, La Clinica de la Raza, Lifelong Medical Care and school-based health centers in Oakland.

Alta Bates Summit estimated its community benefits at more than \$87 million in 2009, including contributing to the Berkeley Primary Care Access Clinic, providing free discharge prescriptions, supporting asthma management, AIDS, diabetes and cancer centers and contributing to health ministries.

-more-

ValleyCare put the value of its community benefits at \$10 million, including supporting a mobile health unit, health centers at Chabot and Las Positas colleges, disease support groups, a lactation program, educational seminars and a nursing school.

Such programs are beneficial, consumer advocate Wright agreed, but he noted that only charity care eliminates some or all of the medical bills for low-income people who need emergency hospitalization.

Charity care reporting rules are also clearer, enabling more valid comparisons.

The nonprofit hospital with the highest level of charity care in the East Bay, St. Rose in Hayward, is going through severe financial challenges. In July, St. Rose asked Alameda County supervisors to help it obtain an emergency grant to ensure it could meet its payroll.

Last month, it announced plans to lay off nearly 10 percent of its workforce.

Despite such difficulties, St. Rose delivered \$7.7 million worth of charity care in 2010, or 5.9 percent of its operating expenses. "If you're not paying taxes, then you need to provide a measurable benefit to the community to justify that status," CEO Michael Mahoney said.

Charity care at Doctors Medical Center, a financially struggling public hospital, plunged from \$9.4 million in 2009 to \$1.4 million in 2010. Although nearly one-fourth of Doctors' emergency room patients are uninsured, the hospital has been successful at signing up large numbers of people for Medi-Cal coverage so they do not need charity care, said Chief Financial Officer Jim Boatman.

-more-

Other patients are in and out of Doctors' emergency room so quickly the hospital has been unable to get them to fill out the applications to qualify for charity care, "so those are just written off as bad debt, but we'll never collect on them," Boatman said. Doctors had \$11.6 million in bad debt in 2010.

In recent months, the county general fund subsidy of nearly \$40 million for Contra Costa Regional Medical Center has been hotly debated.

Several law enforcement leaders have sharply criticized the spending, arguing that it forces deep cuts in other county programs.

But the same economy that compels county budget cuts is pushing more patients to the hospital, its chief said.

"We have seen an unprecedented increase in demand," CEO Anna Roth said. "The economy has played a significant role in upping the pressure on the public hospitals."

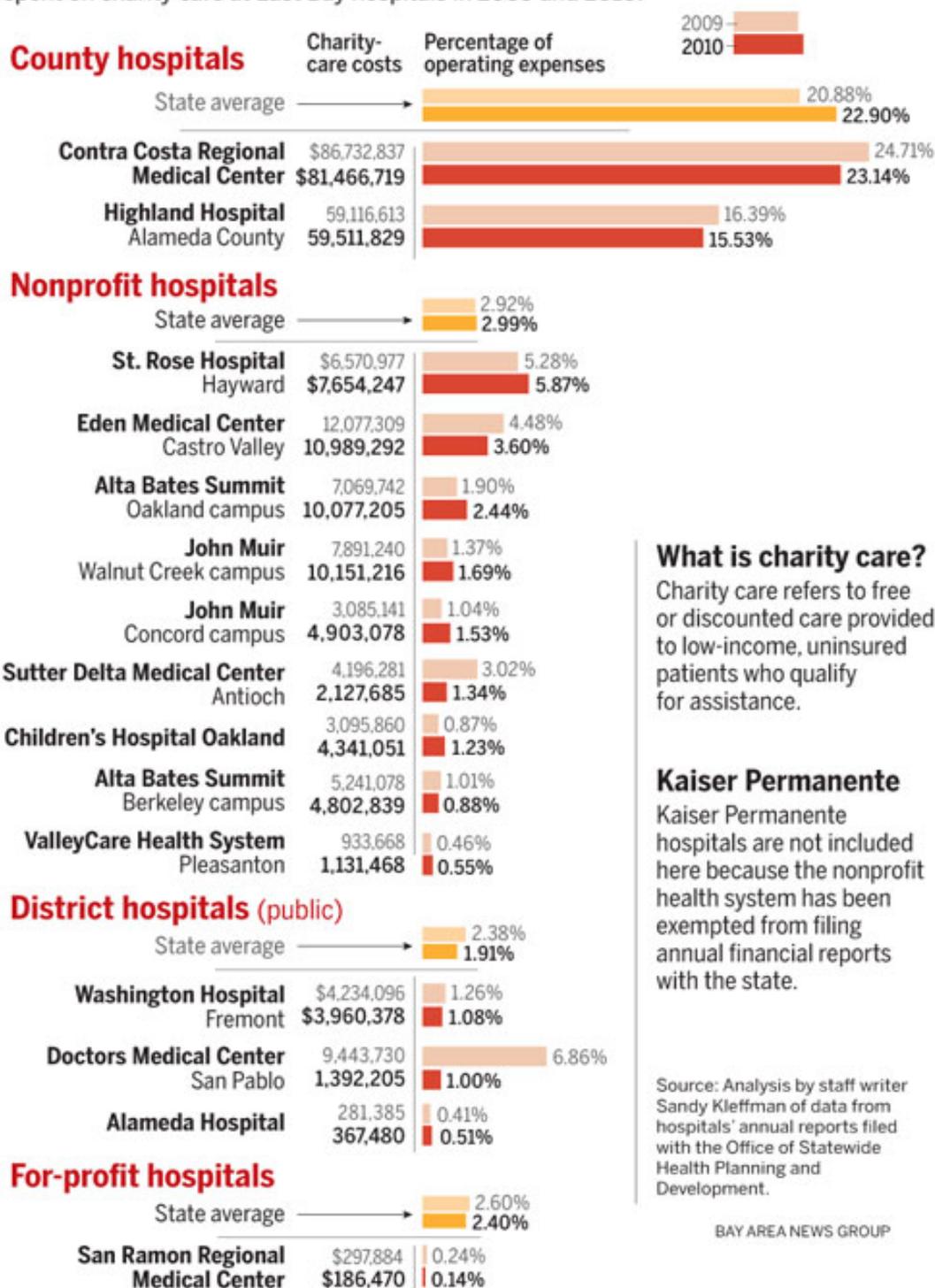
Chan said lawmakers should consider revising the definition of community benefits and should scrutinize whether hospitals do enough to earn their tax exemptions.

"We're in a new situation with health care reform coming," she said. "We have hospitals in distress. We have more uninsured because people have lost jobs. So this may be a good time to re-examine the whole system."

-more-

Hospital charity care

Despite the hefty tax breaks that nonprofit hospitals receive to care for the poor, county hospitals devote a much larger portion of their operating expenses to charity care. Here are dollar amounts and the percentages of operating expenses spent on charity care at East Bay hospitals in 2009 and 2010:



What is charity care?

Charity care refers to free or discounted care provided to low-income, uninsured patients who qualify for assistance.

Kaiser Permanente

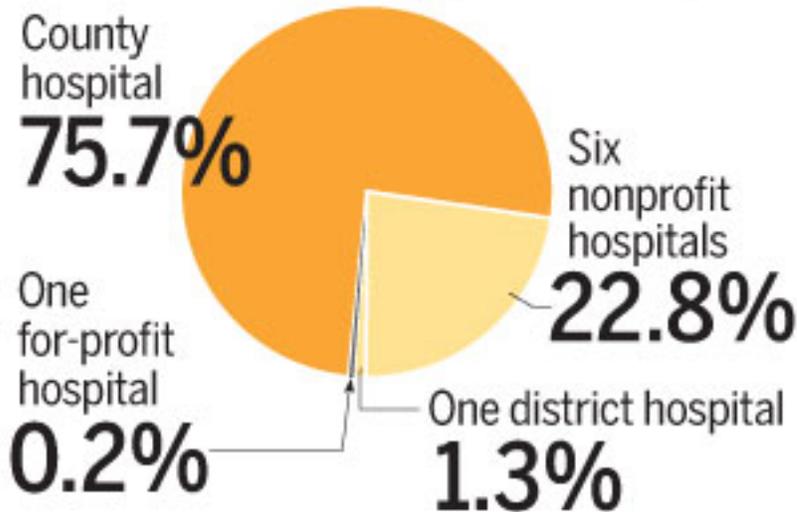
Kaiser Permanente hospitals are not included here because the nonprofit health system has been exempted from filing annual financial reports with the state.

Source: Analysis by staff writer Sandy Kleffman of data from hospitals' annual reports filed with the Office of Statewide Health Planning and Development.

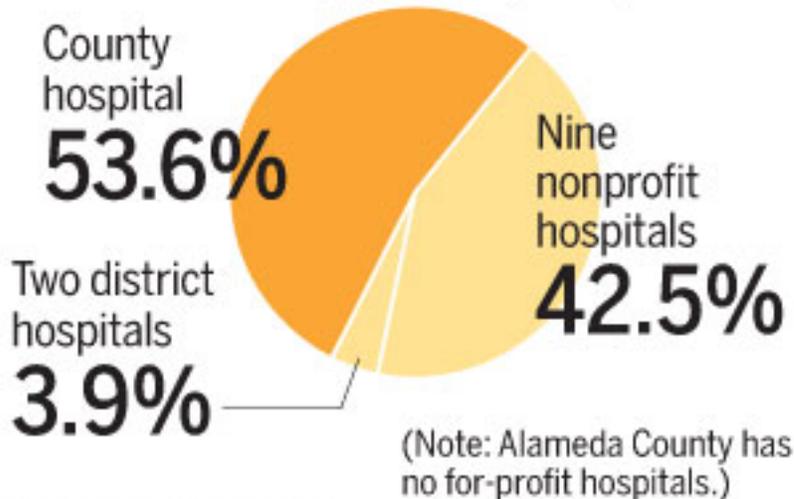
Hospital charity care

Percentages of the total charity care provided in each county in 2010:

Contra Costa County (9 hospitals)



Alameda County (12 hospitals)



Source: Staff analysis of state data

BAY AREA NEWS GROUP

Contact Sandy Kleffman at 925-943-8249.

###