NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

NEWS RELEASE

For Release: Monday, March 27, 1989

Special Notes to Reporters and Editors: (1) Fourth in a series of four articles; (2) Data for hospitals in many counties are contained in attached tables.

A MAJOR BENEFIT OF FOR-PROFIT HOSPITALS: THEY PAY TAXES

While for-profit hospitals provide less indigent care than not-for-profit hospitals, they do pay considerable sums into local, state, and federal tax coffers, the N.C. Center for Public Policy Research says in findings released today. Eleven investor-owned hospitals paid more than $7.5 million in local, state, and federal taxes in 1984.

"Most of these tax payments -- $5.4 of the $7.5 million -- go to federal coffers, however, so it's difficult to say whether the taxes offset the lower amounts of indigent care provided by for-profit hospitals," says Lori Ann Harris, Center researcher. Harris is one of three Center staffers who co-authored the report. In addition to the $5.4 million paid to the federal government, for-profit hospitals also paid $1.1 million in state taxes and $1 million in local property taxes.

The Center's study is based on 1985 surveys sent to all 127 general acute care hospitals in North Carolina. The Center asked for data on taxes paid in 1984. More than 60% of the hospitals responded, and Center researchers later verified the data with county tax supervisors.

Among survey respondents, the highest contributor in total taxes was investor-owned (by American Medical International) Frye Regional Medical Center in Hickory, which paid almost $2.6 million in total taxes in 1984. Highsmith-Rainey Memorial Hospital in Fayetteville paid the most in local property taxes ($203,203), while Frye Regional Medical Center and Raleigh Community Hospital (owned by Hospital Corporation of America) paid the most in state income taxes ($290,709 and $258,294, respectively).

Tax Advantages for Not-For-Profits: Charitable Contributions, State Appropriations, and Tax-Exempt Bonds

For-profit hospital officials are quick to point out that not only do they pay taxes, but they also cannot obtain several sources of revenue available to not-for-profits -- tax-deductible charitable contributions, appropriations from state and local governments, and tax-exempt bond financing.

The Center's research on charitable contributions to hospitals confirms this point. Foundations and corporations gave more than $25 million in charitable contributions to not-for-profit hospitals in North Carolina in 1982. The Duke Endowment

alone made more than $13 million in grants to 62 hospitals for construction, equipment, and free bed days for indigent patients that year. Charitable contributions can thus be a large source of income for a not-for-profit hospital. For example, Cabarrus Memorial Hospital in Concord received grants from four different Cannon foundations in 1983.

And in 1987, the General Assembly appropriated almost $40 million to state-owned and other not-for-profit hospitals. For example, N.C. Memorial Hospital in Chapel Hill and Pitt County Memorial Hospital in Greenville -- both state-supported hospitals -- received $30.5 million and $9.2 million, respectively. Other hospitals receiving state appropriations in 1987 were Mercy Hospital in Charlotte, Robersonville Community Hospital, Thoms Rehabilitation Hospital in Asheville, and Person County Memorial.

Not-for-profit hospitals also enjoy access to tax-exempt bond financing through the N.C. Local Government Commission, says the Center. Between November 1970 and May 1988, 46 counties presented hospital bond referenda to their voters. More than $199 million in general obligation bonds for hospital projects was approved. Only eight referenda were defeated. Another $1.2 billion in revenue bonds was authorized by the N.C. Medical Care Commission.

Taxes An Advantage Only If Hospital Is Investor-Owned

However, Harris points out that 95 percent of the $7.5 million in tax payments by for-profits came from only six investor-owned hospitals. Investor-managed hospitals paid only $6739 in local property taxes. Of the 46 for-profit hospitals currently operating in North Carolina, 21 of those are managed by for-profit hospital chains.

"Ironically," says Harris, "counties which choose to sign management contracts rather than selling their hospital to a for-profit company do not receive one of the main advantages of for-profit investor-owned hospitals -- obtaining a new taxpayer. Yet, the county may still suffer the consequences of for-profit managed hospitals providing lower levels of indigent care or offering a narrower range of services." Some county officials argue that the tradeoff is worth it in order for the county to retain local control of the hospital -- which they do under a management contract but not when they sell a hospital.

To refine the analysis further, Center staffers re-examined the total amount of taxes paid by hospitals that go back to county coffers, because the figure for total taxes paid does not provide a true picture of local hospital contributions in the community. The only taxes that actually are paid to the county -- which thus potentially can be appropriated by Boards of Commissioners for indigent care -- are property tax revenues and a portion of sales tax revenues. The federal income tax revenue is used for other purposes -- defense, Social Security, interest on debt, and other federal expenditures. Using this standard of examining taxes paid to local governments, the hospital contributing the most in taxes returning to the county was Highsmith-Rainey in Fayetteville with $203,203 paid in local property taxes.

A Few For-Profits Out-Perform Not-For-Profits

It has been a long-held belief that public and not-for-profit hospitals ought to serve the community by providing health care services to the poor -- a social benefit. David Falcone, associate professor of health administration at Duke University, poses this question in the report: "Do not-for-profit hospitals provide a measure of social benefit equal in quantifiable amounts to the value of the tax exemptions (state and federal income tax, sales and property tax) accorded them?" He suggests that "On average, they [not-for-profit hospitals] would fail this 'social benefit = tax exemptions' test."

The tax data and the figures for uncompensated care that the N.C. Center for Public Policy Research obtained enabled the Center to compute the "social commitment" of some investor-owned and not-for-profit hospitals in North Carolina. By combining (a) expenditures within the hospital for indigent care and (b) taxes paid to the county that theoretically could also be spent for indigent care, the Center says an argument can be made that some for-profit hospitals are doing their fair share.

The Center analyzed performance by hospitals in counties where there was more than one hospital. In two counties -- Iredell and Wake -- the "social commitment" of investor-owned hospitals was greater than that of not-for-profit hospitals. In Iredell County, Davis Community Hospital, an investor-owned facility, had a social commitment index of 5.84 (.44 percent of gross revenues in taxes paid plus 5.4 percent of gross revenues in indigent care provided). On the other hand, Iredell Memorial Hospital, a county-owned facility, had a slightly lower index of 5.7 (the percentage of gross revenues in indigent care provided). In Wake County, for-profit Raleigh Community Hospital's social commitment index was 4.81. This figure lagged far behind the index for the public Wake County Medical Center (8.9), but it was higher than the 4.0 social commitment index for Rex Hospital, a private not-for-profit hospital.

By contrast, in three other counties -- Catawba, Cumberland, and Forsyth -- not-for-profit hospitals were found to have higher social commitment indices. In Cumberland County, Cape Fear Valley Medical Center, a public hospital, had a social commitment index of 10.3, which exceeded that of investor-owned Highsmith-Rainey Hospital (5.8). In Catawba County, the public Catawba Memorial Hospital measured 10.3 in social commitment compared to the for-profit Frye Regional Medical Center's 6.5 social commitment index. And in Forsyth County, both the not-for-profit hospitals --Forsyth Memorial and N.C. Baptist -- had a much higher social commitment index than Medical Park Hospital, then investor-owned but now investor-managed.

Other State and Local Governments Challenge Tax Exemptions for Not-For-Profits

At the state and local levels, the tax-exempt status of not-for-profit hospitals is beginning to draw attention. In 1987, at least 13 states and four cities considered changes in the tax-exempt status of not-for-profit hospitals. Legislation to remove certain tax exemptions from not-for-profit hospitals has actually been introduced in California, Florida, Minnesota, Oklahoma, Pennsylvania, Utah, Washington, and West Virginia. And local officials in Pittsburgh, Chattanooga, Nashville, and Burlington, Vermont have all taken actions to collect taxes from not-for-profit hospitals.

Robert Taylor, an associate professor of health administration at Duke University, asks three questions in the report: "Why shouldn't hospitals pay taxes? What do not-for-profit hospitals do that is unique? And why do we tax an HCA hospital making $8 million a year and not tax the not-for-profit hospital with the same bottom line?" These questions often put hospital administrators in a difficult position.

Not-for-profit hospital executives defend their tax-exempt status, saying that not-for-profit hospitals not only provide a large amount of uncompensated care to indigent patients, but also provide many specialty programs such as burn units and neonatal intensive care units, which produce little if any revenue. Dan Bourque of Voluntary Hospitals of America summarizes the difference between for-profit and not-for-profit hospitals this way: "A not-for-profit hospital in financial trouble would find a way to stay in the community, while a for-profit hospital would close its doors and leave town."

Recommendations

Harris says the Center's research related to hospital tax issues leads to five recommendations:

1) The Center's primary recommendation is that all private not-for-profit and public hospitals should be required to pass a "social benefit = tax exemptions" test. Not-for-profit hospitals would submit a "community benefit report" to the N.C. Medical Database Commission documenting services to the poor, educational services for all income levels, and other community services. The commission should submit this data to the N.C. Department of Revenue, which would then determine if the community benefit provided justified each not-for-profit hospital's tax exemption. Currently, under the state's revenue law, any organization that is exempt from federal income tax under the Internal Revenue Code is also exempt from state income tax. The Center proposes that the linkage between the state and federal exemption policies be severed, but only as it pertains to hospitals.

This recommendation will help ensure that all private not-for-profit and public hospitals provide a true benefit to the community. If a hospital fails to provide a measure of social benefit reasonably equal in quantifiable dollar amounts to the value of the tax exemptions (state and federal income tax, sales, and property tax), then the hospital should be subject to taxation. Duke researcher Chris Conover says, "If you're going to have tax-exemptions, then it's quite legitimate that they be earned."

If state policymakers do not adopt this recommendation, then the Center makes the following four recommendations:

2) The state should consider removal of the tax exemption for investor-managed hospitals. The N.C. Center's analysis of hospitals in North Carolina reveals that investor-managed hospitals engage in similar activities as do investor-owned hospitals and act more like for-profit entities than not-for-profits. Investor-managed hospitals, like investor-owned hospitals, often provide less indigent care. Unlike investor-owned hospitals, however, investor-managed facilities are not required to pay taxes.

3) The Center recommends that the state allow private not-for-profit (other than investor-managed) and public hospitals to retain their tax exemptions. The state of Utah has adopted this same position, but with strict requirements, after a major public debate. The tax-exempt status should be retained for private not-for-profit and public hospitals (excluding not-for-profits managed by for-profit companies, which are covered by Recommendation #2 above) because the Center's study shows they shoulder a greater burden of indigent care. However, constant re-evaluation of this data should be performed.

4) The Center recommends that counties which receive local property tax payments from investor-owned hospitals earmark these revenues for indigent care for county residents. The Center's study, based on 1984 data, reveals that ten counties received $1 million in local property tax payments from investor-owned hospitals, but only two counties -- Wake and Guilford -- then made appropriations to local hospitals for indigent care or other hospital-based services.

5) Finally, the Center takes a position against a proposed constitutional amendment which would allow public hospitals to enter into joint ventures. Such an amendment had been proposed to the Legislative Study Committee on Public Hospitals by the N.C. Hospital Association and public hospitals. Currently, public hospitals are not allowed to enter joint ventures. The Center says the legislature should first require hospitals to provide data on hospital performance on provision of indigent care and payment of taxes and then analyze that data before making a decision on the draft constitutional amendment. As in Illinois, if not-for-profit hospitals are allowed to go into joint ventures, the state of North Carolina could possibly get bogged down in decisions on tax exemptions for every subsidiary of every hospital.

* * * *

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit organization created to examine state government programs and important issues of public policy in North Carolina. The Center is supported in part by grants from the Z. Smith Reynolds and Mary Reynolds Babcock Foundations, both in Winston-Salem. This study also was supported by the Kate B. Reynolds Health Care Trust of Winston-Salem and the Henry J. Kaiser Family Foundation of Menlo Park, California. Other funding comes from 111 corporate contributors and 730 individual members. In addition to its quarterly magazine, North Carolina Insight, the Center also publishes rankings of the effectiveness of all state legislators and book-length research reports. Recent studies have been issued on the need for a State Environmental Index, poverty in North Carolina, and the rise of the two-party system in North Carolina.

Copies of the 214-page report Comparing the Performance of For-Profit and Not-for-Profit Hospitals in North Carolina are available for $40.00 (plus $2.00 tax and $2.50 postage and handling) from the N.C. Center for Public Policy Research, P.O. Box 430, Raleigh, NC 27602, or call (919) 832-2839.

For more information, call Lori Ann Harris or Ran Coble at the N.C. Center for Public Policy Research at (919) 832-2839.

1984 Taxes Paid By For-Profit Hospitals (Investor-owned, -managed, and -leased)

Hospitals Paying Taxes in N.C.	County	Local Property Tax Paid	State & Local Sales Tax Paid	State Income Tax Paid	Federal Income Tax Paid	Other Taxes Paid	Total Taxes Paid	County Appropriations for Hospital Services
1. Frye Regional Medical Center (IO)	Catawba	$ 177,349	$ NA	$ 290,709	$ 2,095,042	$ 535	$ 2,563,635	$ 0
2. Raleigh Community Hospital (IO)	Wake	161,571	164,564	258,294	1,701,943	0	2,286,372	3,846,000
3. Highsmith-Rainey Memorial Hospital (IO)	Cumberland	203,203	50,195	146,525	1,055,961	33,819	1,489,703	0
4. Central Carolina Hospital (IO)	Lee	123,468	14,636	95,344	491,637	11,163	736,248	0
5. Davis Community Hospital (IO)	Iredell	61,056	70,985	9,129	62,195	0	203,365	0
6. Humana Hospital Greensboro (IO)[a]	Guilford	119,652	NA	NA	NA	NA	119,652 [b]	205,000
7. Medical Park Hospital (IO)	Forsyth	73,286	16,773	0 [c]	0[c]	0	90,059	0
8. Heritage Hospital (IO)[d]	Edgecombe	61,323	NA	NA	NA	NA	61,323 [b]	0
9. Community Hospital of Rocky Mount (IO)	Nash	29,704	NA	NA	NA	NA	29,704 [b]	0
10. Cape Fear Valley Medical Center (IM)	Cumberland	3,800 [e]	0	0	0	0	3,800	0
11. Angel Community Hospital (IM)	Macon	2,939	NA	NA	NA	NA	2,939 [b]	0
TOTAL:		$ 1,017,351	$ 317,153	$800,001	$ 5,406,778	$ 45,517	$ 7,586,800 [f]	

IO = Investor-Owned IM = Investor-Managed NA = Not Available

[a]Humana Hospital was purchased by Moses Cone Memorial Hospital, a private, not-for-profit hospital, in 1988.

[b]Denotes hospitals which did not respond to the North Carolina Center for Public Policy Research survey. Property tax information was supplied instead by the county tax supervisors. Thus, this figure may not accurately depict total taxes paid by the hospital to other levels of government.

[c]Because Medical Park was a limited partnership in 1984, the hospital itself did not pay any state and federal income taxes. The holding corporation (Maplewood Corp. and Casstevens Co.) made all tax payments. Medical Park Hospital was sold to Carolina Medicorp, Inc. in 1986.

[d]Formerly Edgecombe General Hospital.

[e]Taxes were paid on property leased by the hospital. Cape Fear Valley Medical Center ended its management contract with National Medical Enterprises, Inc. in 1985, and is currently managed by SunHealth Enterprises.

[f]94% of the federal, state, and local taxes paid by the 75 hospitals responding to the Center's survey came from five investor-*owned* hospitals (7% of the total sample of 75 hospitals). These five investor-owned hospitals which provided complete tax information contributed $7,279,323.

A Measurement of the Social Commitment of North Carolina Hospitals in Counties With Both Investor-Owned and Not-for-Profit Hospitals

Hospital	County	% of Gross Revenues Paid in Local Taxes	% of Gross Revenues Provided in Indigent Care	Social Commitment Index (% of Taxes Paid plus % of Indigent Care Provided)
Frye Regional Medical Center (IO)	Catawba	.51%	6.0%	6.51
Catawba Memorial Hospital (CO)		tax-exempt	10.3	10.3
Davis Community Hospital (IO)	Iredell	.44	5.4	5.84
Iredell Memorial Hospital (CO)		tax-exempt	5.7	5.7
Lowrance Memorial Hospital (IM)		tax-exempt	NA	NA
Highsmith-Rainey Hospital (IO)	Cumberland	1.2	4.6	5.8
Cape Fear Valley Medical Center (IM)		tax-exempt	10.3	10.3
Humana Hospital (IO)[1]	Guilford	NA	NA	NA
High Point Memorial Hospital (NFP)		tax-exempt	10.7	10.7
L. Richardson Memorial Hospital (NFP)		tax-exempt	NA	NA
Moses Cone Memorial Hospital (NFP)		tax-exempt	9.0	9.0
Wesley Long Community Hospital (NFP)		tax-exempt	NA	NA
Community Hospital of Rocky Mount (IO)	Nash	NA	NA	NA
Nash General (CO)		tax-exempt	NA	NA
Raleigh Community Hospital (IO)	Wake	.71	4.1	4.81
Wake County Medical Center (CO)		tax-exempt	8.9	8.9
Rex Hospital (NFP)		tax-exempt	4.0	4.0
Medical Park Hospital (IO)[2]	Forsyth	.59	1.2	1.79
Forsyth Memorial Hospital (NFP)		tax-exempt	5.7	5.7
N.C. Baptist Hospital (NFP)		tax-exempt	5.4	5.4

IO = Investor-Owned NFP = Not-For-Profit
IM = Investor-Managed CO = County-Owned
NA = Not Available. The hospital did not respond to the Center survey

[1] Humana Hospital was purchased by Moses Cone Memorial Hospital, a private, not-for-profit hospital, in 1988.
[2] Medical Park Hospital was purchased by Carolina Medicorp in 1986 and is now a private, not-for-profit hospital. It has been managed by Hospital Corporation of America since 1984.