United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

March 8, 2006

Richard J. Davidson, President
American Hospital Association
Liberty Place, Suite 700
325 7th Street NW
Washington, DC 20004-2802

Dear Mr. Davidson:

In my October 24, 2005, speech before The Independent Sector, I encouraged the nonprofit hospital community to come forward with its own substantive proposals for common definitions and reforms in areas such as community benefit, charitable care, charges to the uninsured, debt collection and joint ventures. I understand that, in response, members of your staff met with staff of the Senate Finance Committee on January 25, 2006, to offer a sketch of certain legislative options.

Since my request to the nonprofit hospital community went unanswered for months, I am pleased that the American Hospital Association ("AHA") appears to have decided to show leadership in the discussion on nonprofit hospital reform. However, I believe that the AHA can and should take a more active and serious role in this discussion. To help me further understand the AHA's proposals and to better inform myself of the issues facing nonprofit hospitals, I would appreciate your response to the following.

Your legislative Option 1 requires hospitals to provide discounts to all uninsured individuals of limited means and then make that discount publicly available. In light of then Health and Human Services Secretary Tommy Thompson 2003 letter to the AHA, I am troubled by some of the ten hospitals to whom I wrote last year still claiming that Medicare regulations still prohibit them from providing discounts to the uninsured.

1) Please provide your thoughts as to how to calculate these discounts, how to define those of "limited means" and whether the "medically indigent", i.e. those in financial straits because of a catastrophic illness, should be included.
2) Pleas explain why you think a legislative solution is needed to permit these discounts.
3) Please provide copies of any guidance that AHA issued to its members after the Secretary issued his guidance and explain what AHA is doing to educate its members on this topic.

4) Please provide data on the number of those uninsured, covered by Medicare, covered by Medicaid or other state or governmental programs providing medical care benefits for low income individuals on a state by state basis.

Your legislative Option 2 requires hospitals to utilize a common definition of community benefit, based on the model of the Catholic Health Association of the U.S. ("CHA") and VHA, Inc, and makes publicly available the amount of community benefit provided by the hospital. My staff is working with CHA to ensure that their model is responsive to the concerns of various members of Congress and encourage you to work closely with them if you are not already doing so.

1) Please explain when and how AHA will present the CHA/VHA model to AHA members.
2) Please explain what, if any, guidance the AHA provides to its members on the calculation of charity care and community benefit. This is of particular interest to me as my staff tells me that each of the ten hospitals they are reviewing have very different methodologies for calculating costs, particularly as related to charity care and community benefit.
3) Please discuss whether you expect to change the AHA's Annual Survey item regarding Uncompensated Care, particularly the Charity component.
4) Please explain the criteria you use to classify each of your members into your separate constituencies, e.g., health care systems, small or rural hospitals, metropolitan hospitals, etc. and discuss the hurdles you will have to overcome to achieve consensus among these various constituencies.

Your legislative Option 3 adopts the June 2005 recommendations on strengthening transparency, governance, and accountability of charitable organizations made by the Panel on the Nonprofit Sector.

1) Please provide a detailed list of which of the recommendations the AHA supports and which ones it believes should be legislated.

Providing discounts to the uninsured and developing a standardized definition of and accounting for charity care and community benefit are two very important issues to be addressed by nonprofit hospitals. However, the nonprofit hospitals' practices in other areas also cause me serious concern. Some of these areas include investments in joint ventures, taxable subsidiaries, venture-capital funds and other financial arrangements, contracts for health care, management and administrative services, executive compensation, travel and expense reimbursement, billing and debt collection practices, use of tax-exempt bond proceeds, conflicts of interest and other governance issues, and accounting, reporting, public disclosure and general transparency issues. I would appreciate receiving your advice in these areas, including what "best practices" your members may currently be using.

In addition, I understand that, in their meeting, our staffs recognized the need to consider regional, state and local flexibility in determining charity care and community benefit and that there was general agreement that a meaningful enforcement regime with appropriate penalties and sanctions is also necessary. I am pleased that there is

agreement on these common sense steps to ensure meaningful reform. Your additional thoughts in these areas are also appreciated.

So that I may better understand what role the AHA can take in these areas, I would appreciate your response to the following.

1) What is AHA's governance structure and how are board members selected?
2) What are AHA membership fees and what are the benefits of AHA membership?
3) What are AHA policies and procedures for ensuring members comply with AHA guidelines?
4) What sanctions does AHA impose on members who do not comply with AHA guidelines?
5) Does AHA have any plans to reach out to the Internal Revenue Service or the Financial Accounting Standards Board to improve accounting and reporting practices?

As you are aware, I have been and continue to be a champion of fair hospital payment and regulatory policy and have always maintained an open-door policy for the AHA and its members. The AHA has been a partner in my work not only with the Senate Finance Committee but also in my work with the Senate Aging Committee. I am pleased that the AHA is engaged in this discussion of reform of nonprofit hospitals as such reform is a key priority for me and look forward to your response.

In order to further the Committee's work, I would appreciate receiving your response within thirty days. If you have any questions, please contact the Committee staff at (202) 224-4515 with any questions.

Sincerely,

Chuck Grassley

Charles E. Grassley
Chairman

cc: Max Baucus, U.S. Senator
Ron Wyden, U.S. Senator