United States Senate
Committee on Finance

Sen. Chuck Grassley · Iowa
Ranking Member

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Grassley Seeks GAO Study of Nonprofit Hospitals' Community Benefits

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today asked the Government Accountability Office to study how nonprofit hospitals meet their requirement to provide community benefits in exchange for their tax-exempt status and related tax breaks.

"The community benefit standard means different things to different people," Grassley said. "It's loosely defined. We need to get a better handle on how nonprofit hospitals are fulfilling their requirement to serve the community in exchange for the generous tax breaks they receive. This is especially important as policymakers talk about helping the uninsured. We need to make sure tax-exempt hospitals are providing health care to those in need in keeping with their requirement to serve the public."

Grassley continues to conduct a wide-ranging review of nonprofit practices to ensure that tax-exempt status results in public benefit. The federal Treasury foregoes hundreds of billions of dollars of taxes every year from nonprofit groups.

The text of Grassley's request letter to the Government Accountability Office on nonprofit hospitals follows here.

April 5, 2007

The Honorable David M. Walker
Comptroller General
United States Government Accountability Office
441 G. Street, NW
Washington, D.C. 20548

Dear Mr. Walker:

I am writing to request that the Government Accountability Office (GAO) conduct additional work on uncompensated care and other community benefits provided by nonprofit hospitals. I am concerned about the extent to which nonprofit hospitals are providing services and benefit to the public commensurate with their favored federal tax status. As you know, hospitals that qualify for nonprofit status are exempt from federal income taxes and typically receive other advantages, including access to charitable donations and tax-exempt bond financing.

Before 1969, the Internal Revenue Service (IRS) required hospitals to provide charity care to qualify for tax-exempt status. Since then, however, IRS has not specifically required such care, as long as the hospital provides benefits to the community in other ways. This "community benefit" standard provides wide discretion in what hospitals can designate under community benefit. However, community benefits are generally understood to include uncompensated care, which consists of charity care and bad debt, and other community benefits such as the provision of health education and screening services to specific vulnerable populations within the community.
I am concerned that the amount of uncompensated care provided by nonprofit hospitals is an imprecise measure of the amount of charity care provided by hospitals. The amount of uncompensated care reported by a hospital can vary based on the policies hospitals set on whom is eligible to receive charity care and their policies on bad debt. The current reporting practices may contribute to inconsistent reporting of charity care to external parties. Although there have been recent attempts to clarify guidance on accounting and reporting uncompensated care, I believe that much still needs to be done.

As you noted in your testimony in May 2005, the nonprofit hospitals you examined also reported providing a wide range of other community benefits in addition to uncompensated care. These benefits could vary based on what hospitals chose to provide as well as by variations in the applicability, specificity, and breadth of state requirements. The hospital industry has begun to establish some of its own standards on what constitutes a community benefit that may provide best practices for the nonprofit hospital sector. For example, the Catholic Health Association of the United States (CHA) has developed definitions of community benefits and a guide for reporting these benefits followed by certain nonprofit hospitals.

I am also concerned about the level of nonprofit hospital executive and board member compensation and their involvement in for-profit business ventures with the nonprofit hospitals. There have been alarming reports about the lavish lifestyle that some of these individuals lead courtesy of the nonprofit hospital as well as the business ventures that enrich these individuals to the detriment of the nonprofit hospital.

I request that GAO conduct a study that examines these issues:

Describe the community benefit standards that states have established, in addition to those from IRS, and any guidelines the hospital industry uses to interpret the community benefit standard.

Examine the standards and policies nonprofit hospitals use to define the components of uncompensated care, charity care and bad debt, and how nonprofit hospitals interpret and report them in practice.

Examine how nonprofit hospitals interpret the community benefit standard for community benefits

other than uncompensated care, and how nonprofit hospitals report them in practice.

Examine the level of nonprofit hospital executive and board compensation and the extent to which these individuals are involved with for-profit business ventures with the nonprofit hospital.

In conducting this study, I ask that you examine a broad range of nonprofit hospitals by size, geographic location, teaching status and the level of state legislative and regulatory requirements on charity care and other community benefits.

Sincerely,

Charles E. Grassley
Ranking Member
Senate Committee on Finance

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