

Are hospitals charities or businesses?

By Jim Nowlan

The politically powerful Illinois Hospital Association and the Illinois Department of Revenue are in a tussle over whether hospitals should be defined as charities and thus eligible for property tax exemptions. I imagine the legislature will weigh in on this, probably siding with the hospitals. Do readers think of their local non-profit hospitals as more like charities or businesses?

Traditionally, private, non-profit hospitals across Illinois, which make up most of the state's 200 hospitals, have not been required to pay local property taxes. But in 2003 the Champaign County Board of Review denied the application of the Provena hospital in Urbana for a property tax exemption, in part because Provena's bill collectors were using very aggressive tactics to collect unpaid bills from patients, many of whom were poor.

The state Department of Revenue agreed with Champaign County and so, ultimately, did the Illinois Supreme Court. This threw the hospital association into a tizzy over whether most if not all non-profit hospitals would be required to pay property taxes, which can amount to millions of dollars annually per hospital.

The Illinois Constitution provides that property tax exemptions may be provided for properties that are used "exclusively" for "charitable purposes." The state Supreme Court further re-stated a five-part test for a charitable institution in the Provena case that few non-profit hospitals could meet. For example, the charitable institution must derive "its funds mainly from private and public charity" and dispense "charity to all who need

it and apply for it.” Provena in Urbana was devoting an amount to charity less than 1 percent of its annual revenues.

To back up its position, the state revenue department recently denied exemptions to three more hospitals, one each in Chicago, the suburbs and downstate, though none yet in this paper’s circulation area.

In response, the state hospital association has mounted a public relations campaign to show all that hospitals in Illinois provide about \$4.6 billion each year in charity care, unreimbursed care for government programs such as Medicaid, which pay less than private insurers, and for other community benefits.

Hospitals are not peas from the same pod. Many large suburban as well as high prestige urban hospitals have built up large reserves and are continually building gleaming new facilities. With large populations of patients on private insurance, these hospitals could shift the cost of property taxes onto these patients.

In contrast, many rural and urban hospitals in poor neighborhoods struggle to meet payrolls; most of their patients are on Medicare and Medicaid, whose relatively low reimbursement rates are set by federal and state governments.

Kewanee Hospital in my rural area in western Illinois [or, southeast of the Quad-Cities] is a case in point. It has been paying property taxes of about half a million dollars a year, on revenues of about \$27 million, which taxes could challenge its long-term survivability.

Although Kewanee provided \$587,000 in “charity care” last year, it also absorbed about \$3.6 million in unreimbursed Medicaid care and in unpaid “bad debts.”

Clearly the big, generally prosperous hospitals operate as big businesses, paying top management high-six and even seven figure compensation packages. Hardly Mother Teresa-type operations.

So what do you think should be done? Neighboring Iowa provides property tax exemptions, as I imagine most states, like Illinois traditionally, have done.

On the other hand, the hospital properties are among the most valuable in their communities and exemptions take big dollars from the property tax rolls that schools and other local governments could sure use. And remember, valuable property exempted from the tax rolls shifts the burden onto you and me, who do pay the property tax.

Gov. Quinn has called for yet another task force, to examine the situation. I imagine the hospital association will come to state lawmakers with legislation that would exempt all non-profit hospitals from property taxation. The hospital association also has about \$2 million in campaign cash to contribute to lawmakers, to back up their case.

I think that struggling so-called “critical access hospitals” in underserved areas such as Kewanee should be exempt from the tax, and that the prosperous, big business hospitals should generally have to pay the tax.