



A THREATENED PRIVILEGE

Threatened with the loss of their tax-exempt status, in 1990 Wisconsin hospitals decided they needed a system to better measure and quantify their provision of needed community services. The Catholic Health Association of Wisconsin (CHA-W) and the Wisconsin Hospital Association (WHA) established the CHA-W/WHA Task Force on Social Accountability to address this issue.

Drawing on the *Social Accountability Budget: A Process for Planning and Reporting Community Service in a Time of Fiscal Constraint* (Catholic Health Association of the United States, St. Louis, 1989), the task force focused on the tax-exemption issue and on the broader issue of hospitals' involvement in their communities. Task force members perceived a need for hospitals to promote a better understanding within their respective communities of the services they offer. To do this, Wisconsin hospitals would have to assess their communities' needs and translate those assessments into a more coordinated approach to providing healthcare.

DEFENDING TAX EXEMPTION

With this in mind, the CHA-W/WHA Task Force on Social Accountability established its goal: to develop a proactive response to potential legislative and municipal initiatives that could challenge the tax-exempt status of not-for-profit

*Wisconsin
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Status*

BY WILLIAM J. BAZAN

hospitals. The task force's objectives were as follows:

- Determine a common definition of charity care that all hospitals could use for reporting purposes

Summary Because their tax-exempt status was at stake, Wisconsin hospitals joined together in 1990 to study and develop a system to better measure and quantify their provision of needed community services. The goal of a task force made up of members of the Catholic Health Association of Wisconsin (CHA-W) and the Wisconsin Hospital Association (WHA) was to develop a proactive response to potential legislative and municipal initiatives that could challenge the tax-exempt status of not-for-profit hospitals.

The CHA-W/WHA Task Force on Social Accountability decided to generate data to demonstrate hospitals' tax-exempt worthiness and to show that hospitals pay for many of the direct municipal services they receive. The task force surveyed Wisconsin hospitals on the services they provide to their communities, the municipal service fees they pay, and whether any of their services compete with local businesses.

The survey results showed that Wisconsin hospitals *do* provide needed community services. However, the hospitals do not always adequately communicate to their communities the extent of these benefits. The survey results also showed that Wisconsin hospitals pay most service fees that are quantifiable and measurable.

In 1991 the task force adopted a statement of policy which emphasizes that hospitals must clearly demonstrate that they have assessed the healthcare needs of their communities, implemented programs to respond to those needs, and maintained their mission to serve.



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- Recommend social accountability indicators that not-for-profit hospitals could use
- Recommend approaches for implementing a social accountability process by encouraging hospitals to make both short-term and long-term commitments to better quantify and qualify the community services and charitable care they provide
- Provide hospitals with guidelines for reporting community services to be used as an aid in communicating with their constituents, including elected officials at all levels of government
- Encourage hospitals to inform their publics of the taxable nature of a portion of their business operation, if applicable, including the amount paid in taxes and municipal service fees

WISCONSIN'S SITUATION

Wisconsin hospitals provide essential community services and high-quality care to indigent persons. In 1990 alone, they provided more than \$89.5 million in uncompensated care (Wisconsin Office of Health Care Information, Madison). (This figure is based on hospital costs, not charges, and does not include shortfalls resulting from the amount of care provided to Medicare or Medicaid beneficiaries or to those eligible for county general relief programs.)

Threatening Wisconsin hospitals' ability to minister to those in need, several state legislative proposals questioned property tax exemption and municipal service fees.

- A "service fee" for hospitals would be established that requires the facilities to pay for the following municipal services: trash collection, including recycling costs, even if the hospital does not use this service; police and fire protection; and street construction, repair, and maintenance (including traffic control and snow and ice removal) for all municipal streets, not just those adjacent to the hospital.

- The service fee would be based on the hospital's square footage in proportion to the total square footage of real property in the municipality.

- The service fee would include a percentage of the municipality's operational costs of providing those services, as well as a percentage of capital costs. (The task force estimated that hospitals would have had to pay about 30 percent of what

their property tax liability would have been if they paid taxes.)

- Standards of charitability would be established for all not-for-profit institutions to demonstrate their tax-exempt worthiness.

- These service fees would be applicable to all not-for-profit entities except those housed in county and municipal buildings.

TASK FORCE RESPONDS TO THE CHALLENGE

The CHA-W/WHA Task Force on Social Accountability assessed the actions of this special legislative committee and determined that, collectively, Wisconsin hospitals needed to generate a significant amount of data to demonstrate their tax-exempt worthiness, as well as to show that they pay for many of the direct municipal services they receive. Furthermore, they should also become more aware of their activities that may unfairly compete with local tax-paying business.

The task force also determined that all Wisconsin hospitals needed to demonstrate that they are indeed providing meaningful services designed to improve the general health and well-being of the local community. In some instances the public may not be able to clearly distinguish between projects that are truly community services and projects that promote and market the hospital. The task force therefore believed that hospitals must clearly demonstrate that they have assessed the healthcare needs of their communities, implemented programs to respond to those needs, and maintained their mission to serve.

To complete these assignments, the task force created a data-gathering instrument and sent it to all Wisconsin hospitals (see **Box** on next page). The form was designed to help hospital administrators think about and then quantify community services, municipal service fees currently being paid (as well as property taxes paid on for-profit ventures), and not-for-profit competition with local businesses.

The survey results showed that Wisconsin hospitals *do* provide needed community services. However, the hospitals do not always adequately communicate to their communities the extent of these benefits. The survey results also showed that Wisconsin hospitals pay most service fees that are quantifiable and measurable, such as water and sewage.

STATEMENT OF POLICY

The task force completed its work in early 1991. It concluded that Wisconsin hospitals need to

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communicate better and more often with their publics. CHA-W and WHA boards of trustees adopted a statement of policy in the spring of 1991:

- The WHA and CHA-W support direct service fees, based on actual usage, for services that can be quantified, are measurable and are applied equally to all properties.

- The Associations oppose service fees that are based on the assessed value of tax-exempt property or on a square footage basis.

- Each hospital, in its respective community, must make an effort to demonstrate the charity care and community services it provides by quantifying the value of those services in the long term and at a minimum, in the short term, provide information about community services offered.

- The findings of the CHA-W/WHA

The task force recommended that hospitals adopt the Office of Health Care Information definition of charity care.

Task Force on Social Accountability apply specifically to property tax exemptions afforded non-profit hospitals. It is not the intent of the Associations to comment on other property tax exemptions that may directly or indirectly relate to individual hospitals.

- Non-profit hospitals must recognize that some of the services they provide may be interpreted as being in competition with local area businesses. The perception will vary from community to community based on the services being offered by the hospital versus those by other local employers. Hospitals should carefully consider the degree to which new or existing service may be viewed as being in competition with local businesses and not truly related to a hospital's specific mission. Hospitals should assess the tax implications when deciding to offer such services.

TASK FORCE SURVEYS

COMMUNITY SERVICES

Please list the community services that your hospital provides. Sample categories as well as specific examples are listed. Be as inclusive as you can, since the Special Committee on Taxation is looking for ways that our hospitals can demonstrate the numerous community services they provide.

A. Health Promotion/Screening/Educational Programs

Examples:

- Blood pressure screening
- Skin cancer screening
- Cardiac education programs
- Freedom from smoking classes
- CPR classes
- Stress management

Others offered by your hospital:

1. _____
2. _____
3. _____

4. _____

5. _____

B. Loaned Personnel/Community Support Services/In-Kind Donations

Examples:

- Work with the homeless
- Paramedic training
- Donated space to community groups
- Printing services
- Equipment contribution
- Involvement with local churches
- Community food drives
- American Cancer Society

Other specific involvements by your hospital:

1. _____
2. _____
3. _____
4. _____
5. _____

C. Education and Training of Health Professionals

(Do not include in-service training for employees.)

Examples:

- Medical school internships
- Field placement of health professionals
- High school work experience programs
- Minority placements/fellowships

Others:

1. _____
2. _____
3. _____
4. _____
5. _____

MUNICIPAL SERVICE FEE SURVEY

Hospital _____ City _____

The Municipal Service Fee Initiative, advanced last session, would have



The task force's report also addressed its other objectives by recommending that hospitals adopt the Office of Health Care Information definition of charity care and offering guidelines for implementing a social accountability process and reporting community benefits (taken from the Catholic Health Association of the United States' *Social Accountability Budget: A Process for Planning and Reporting Community Service in a Time of Fiscal Constraint*).

WHAT NOW?

Short-Term Successes CHA-W and WHA joined forces in lobbying against the municipal service fee. Using data the Task Force on Social Accountability gathered, managers of both associations organized their hospital personnel to write and call their state legislators. CHA-W also worked closely with the Wisconsin Catholic Conference and the Leadership Conference of Women Religious. These collaborative ventures

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helped defeat the municipal service fee—at least for now.

Long-Term Goals In the long term, Wisconsin hospitals must continue their efforts in demonstrating to their publics the community benefits they are providing. Hospitals' tax-exempt status is based on the presumption that the exemption will lessen the fiscal burden placed on government by encouraging the hospital to sponsor an activity or provide a service that benefits the public, one that government might otherwise be forced to provide. In creating these tax exemptions, the state of Wisconsin recognizes that it is, in effect, providing a public subsidy to hospitals; however, the cost of the subsidy is assumed to be less than the cost of governmental provision of the same services.

Wisconsin hospitals must continue working together to demonstrate that they are worthy of this tax-exemption benefit. Anything short of that will hamper healthcare's ministry of service. □

allowed a municipality to impose a service fee on tax-exempt properties in the distinct service areas below:

1. Garbage and Trash Collection and Disposal

a. Do you contract with a private hauler?
 Yes No

b. If your municipality collects trash and garbage from your facility, do you pay a fee for that service?
 Yes No

If you answered "yes" to (b), please indicate the amount of the fee and how the fee is determined (if possible).

2. Police and Fire Protection

a. Do you pay a fee if police are needed and come to your facility?
 Yes No

b. Do you pay a fee for fire trucks called to your facility?
 Yes No Only for false alarms
If you answered "yes" to either of the above, please indicate the amount of the fee and how the fee is determined.

3. Road Construction, Repair

Do you pay a fee for:

• Street construction? Yes No

• Repair and maintenance?
 Yes No

• Traffic control? Yes No

• Snow and ice removal? Yes No
If you answered "yes," please indicate the amount of the fee and how the fee is determined.

4. Zoning

Do you pay a fee for:

• Building inspection? Yes No
• Enforcement of building and sanitary codes and subdivision regulation?
 Yes No

If you answered "yes," please indicate the amount of the fee and how the fee is determined.

5. Other Fees or Taxes

Please list any other fees or taxes you pay to your local government.

- Property taxes paid by for-profit subsidiaries
 Sewer fee
 Water fee
 Special assessments
 Other fees

6. Voluntary Payments

If you make voluntary payments for any of the municipal services enumerated above in lieu of fees, please list the service and the fee paid. Also, include how you determine the dollar amount for each voluntary payment.

NOT-FOR-PROFIT COMPETITION

Please indicate if you're involved in any hospital enterprise that is, or may be perceived to be, in competition with businesses in your community.

Examples:

- Medical equipment sales or rentals
 Hearing aid sales
 Retail pharmacies
 Food services
 Physician billing
 Retail optical departments
 Cafeteria open to general public
 Interior decorating
 Day care centers

Others:

1. _____
2. _____