Q: What is a not-for-profit hospital?
A: The not-for-profit designation recognizes the valuable work performed by charitable, religious, cultural, educational and other organizations, including hospitals. Nonprofit hospitals have a long history of providing health care for all; including those who are not able to pay. Due to their charitable status, not-for-profit hospitals are exempt from most federal and state taxes but are not exempt from other taxes, like Social Security and Medicare taxes. The term "non-profit" or "not-for-profit" means that the profits of the hospital are returned to the hospital for its operations rather than to shareholders.

Q: So, do not-for-profit hospitals make a profit?
A: Like any other financially viable organization, a not-for-profit hospital must take in more than it pays out in salaries, equipment, supplies, pharmaceuticals and operations. Unlike for-profit organizations, hospitals invest the excess of revenue over expenses back into the facility to provide health care services to the community it serves. These investments include new services, new access points, replacement equipment and new technology. Not-for-profit hospitals are not publicly traded, and they do not pay dividends to shareholders as would a for-profit company.

Q: What do hospitals do in exchange for not paying taxes?
A: The special tax status a not-for-profit hospital receives is intended to be an acknowledgment of the community benefit provided by these institutions. By federal law, hospitals must provide *community benefit,* which is specifically defined by the Internal Revenue Service (IRS). Community benefit includes charity care, the uncompensated cost of providing Medicaid, the education and training of health care professionals and other efforts that include the promotion of health.

To make sure the community benefits are meeting the needs of the community, the federal government requires all tax-exempt hospitals to conduct a *Community Health Needs Assessment* every three years. An *Implementation Strategy* is developed based on the health needs identified in the assessment. The hospitals must measure and report on the impact of their programs and they must also report annually to the IRS on certain taxes.
Community benefits must react to a specific community need recognized in the assessment and meet at least one of the following:

- Improve access to health care services
- Enhance the health of the community
- Advance medical or health knowledge
- Relieve or reduce the burden of government or other community health efforts

It's important to recognize that hospitals provide many services that do not result in revenue to the organization. Lifesaving trauma services, maternity care and general medicine are three areas where hospitals often lose money but strive to maintain these vital services. Hospital reserve funds are used to cover the costs of this care.

Q: **It seems like some hospitals have huge reserves. Why do they need all of that money?**
A: The amount of reserves varies greatly and is dependent on many factors. It's important to remember that not-for-profit hospitals have two ways to pay for capital investments - - cash reserves and by issuing bonds. Bond rating agencies set benchmarks for credit ratings – and just like your personal credit rating, the higher your credit score, the more you are viewed as a trustworthy investment by lenders. Not-for-profit hospitals, and other public entities including the state of Indiana and public universities issue bonds for major investments including replacing outdated facilities, building new sites of care, offering new services and upgrading technology. Some hospitals, especially those in rural areas, or those who serve communities with high poverty levels, may struggle to access capital.

Q: If not-for-profits don't pay taxes, why not require them to invest in economic development project in their communities?
A: The primary purpose of a not-for-profit hospital is to provide health care services to the communities they serve. The make investments in their facilities and they also work with other community partners to address health care needs. Through these investments, employment, and the purchase of goods and services, hospitals provide tremendous economic impact in their communities. 2018 data show that Indiana hospitals provide $71 billion in direct and indirect economic impact across Indiana.

Q: Why not require hospitals to invest a certain percentage of reserves in their communities?
A: Hospitals currently undertake a Community Health Needs assessment, which is a very thorough and detailed assessment of the health needs in their service area. The CHNA ensures that hospitals are supporting efforts that are truly a community priority. Setting a threshold for other community investments would detract from the hospital's core purpose – which is to provide health care services. Hospitals often do play a major role in partnering with local governments, businesses and other stakeholders on key projects. But these decisions should be made at the local level, not by state mandates in Indianapolis.
Requiring a set percentage also assumes that hospitals have no fluctuations in investment income and earnings, which is not accurate. This would be especially problematic for rural not-for-profit hospitals as well as those that serve impoverished communities. These facilities are very fragile and for many it is a daily struggle to continue to provide services. Setting an arbitrary level could well mean the difference between keeping the doors open or closing altogether.

January 27, 2020