

**An Update: An Analysis of the Tax Exemptions  
Granted to Non-Profit Hospitals in Chicago and the  
Metro Area and the Charity Care Provided in Return**

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## **I. INTRODUCTION**

Three years ago the Center for Tax and Budget Accountability (“CTBA”) released a study estimating the value of the annual tax benefits granted to non-profit hospitals located in Cook County (the “2006 Report”).<sup>1</sup> The 2006 Report compared the value of these tax breaks to the cost of charity care provided in return. The Report focused on charity care, which is free or reduced-cost medical care delivered to poor and low-income individuals, because state law is clear: Illinois non-profit, charitable hospitals must provide charity care to qualify for the local property tax exemption, and the state and local sales tax exemption. This study is an update to the 2006 Report.

Since tax exemption is, in essence, the use of public funds for a specific public purpose, it follows that government should understand and evaluate whether the forgone tax revenue is being used to provide the desired public benefit. To help decision-makers attain that goal, this study compares the value of the aggregate tax exemptions of non-profit hospitals in Chicago and the Metropolitan Area, against the cost of charity care those hospitals provide in return. Recognizing the valuable role non-profit hospitals play in the health care safety-net, ever-increasing health care costs, private sector retrenchment from providing employees with health care coverage, and on-going fiscal problems confronted by all levels of government, it is hoped that the data produced in this report will inform this crucial debate in a manner that leads to constructive policy solutions.

## **II. EXECUTIVE SUMMARY**

Publicly-funded health care programs – often referred to as the health care safety-net – are intended to provide access to basic, affordable medical care to poor and low-income Americans. As health care costs continue to rise, private coverage moves farther out of financial reach for many families. Over the last ten years, average premiums for family health care coverage have increased 119 percent.<sup>2</sup> Public programs have stepped in to ensure access to needed health services for the most vulnerable members of society. This, in turn, has put tremendous financial pressure on federal, state and local government budgets, which are already experiencing significant annual budget shortfalls. Growing public health care costs have posed a significant fiscal problem for states like Illinois that have structural imbalances in their tax structure, meaning that annual tax revenue does not keep pace with the inflationary cost alone of providing public services.<sup>3</sup> Illinois’ deficit is estimated to be between \$4 billion and \$9 billion for this fiscal year.<sup>4</sup> Accordingly, it is imperative that all public dollars lawmakers dedicate to foster access to affordable health care are actually applied to that end. This should be the goal in good economic times and bad. However, it is particularly important during severe economic downturns. In difficult economic times when individuals lose their jobs and their employer-sponsored health coverage, the need for essential public services, including health care, increases. At the same time demand for public services is growing, tax revenue that supports services declines, making every available taxpayer dollar that much more important.

The public health care safety-net has three fundamental components, each of which has a specific funding stream: (1) Medicaid, the health care program for low-income families, which is funded principally with federal and state dollars, (2) public hospitals and clinics, which are funded with a mix of federal, state and local tax dollars and (3) publicly-funded charity care, which is also subsidized with federal, state and local tax dollars given to non-profit hospitals in the form of tax breaks.

While Medicaid has been instrumental in stemming the growing tide of the uninsured – in 2007, 59 million Americans received health care coverage through the Medicaid program<sup>5</sup> – many struggling families do not qualify for the program because their income is not low enough. Today, more than 45 million individuals in the U.S. are uninsured, meaning they do not have private or public health insurance.<sup>6</sup> This number is expected to increase as the economy sinks further into recession – the Kaiser Family Foundation has estimated that as unemployment grows with the declining economy, the number of uninsured will grow by between 2.6 million and 5.8 million children and adults, depending on how high the unemployment rate climbs.<sup>7</sup> Charity care, delivered by non-profit, charitable hospitals, is intended to cover a portion of this gap. Charity care is medical care delivered for free or at a reduced cost to uninsured, poor and low-income individuals.

Charity care is funded through tax breaks granted to non-profit, charitable hospitals. Because charity care is funded indirectly through tax breaks rather than by direct appropriations of public dollars, it has not traditionally been viewed as a specific public health care “program.” However, government funds that are provided to non-profit hospitals by means of tax breaks for the purpose of using such funds for a particular public service (*e.g.*, charity care), are no different than public dollars that are directly appropriated to other public programs (*e.g.*, Medicaid). The dollar value of the tax breaks given (*i.e.*, foregone tax revenue) are public dollars in the hands of non-profit hospitals that the law requires be used for a specific public purpose: access to affordable health care by poor and low-income, uninsured individuals through the provision of charity care. Lawmakers have a responsibility to ensure that all public dollars, whether direct expenditures, or indirect expenditures in the form of tax breaks, are used for the purposes intended. Moreover, this is particularly important with the use of public funds given in the form of tax breaks for the very reason that there is less transparency in how these dollars are ultimately used.

Currently, there is considerable confusion in Illinois and nationally around what types of tax benefits require charity care. The confusion has been exacerbated by the fact that there are four different types of tax benefits granted to non-profit hospitals, each of which has different legal requirements: (1) federal income tax exemption, (2) state income tax exemption, (3) state and local sales tax exemption and (4) local property tax exemption. This report focuses on charity care provided compared to the value of tax exemptions granted because Illinois law requires non-profit hospitals to provide charity care for the most valuable tax benefits conferred – the local property tax exemption, and the state and local sales tax exemption.<sup>8</sup> This report is intended to (1) review the different standards that must be met for the different tax breaks, (2) summarize recent developments in state law and federal reporting on charity care and (3) compare the value of the public dollars given to non-profit hospitals through tax breaks, to the charity care provided in return.

### III. KEY FINDINGS

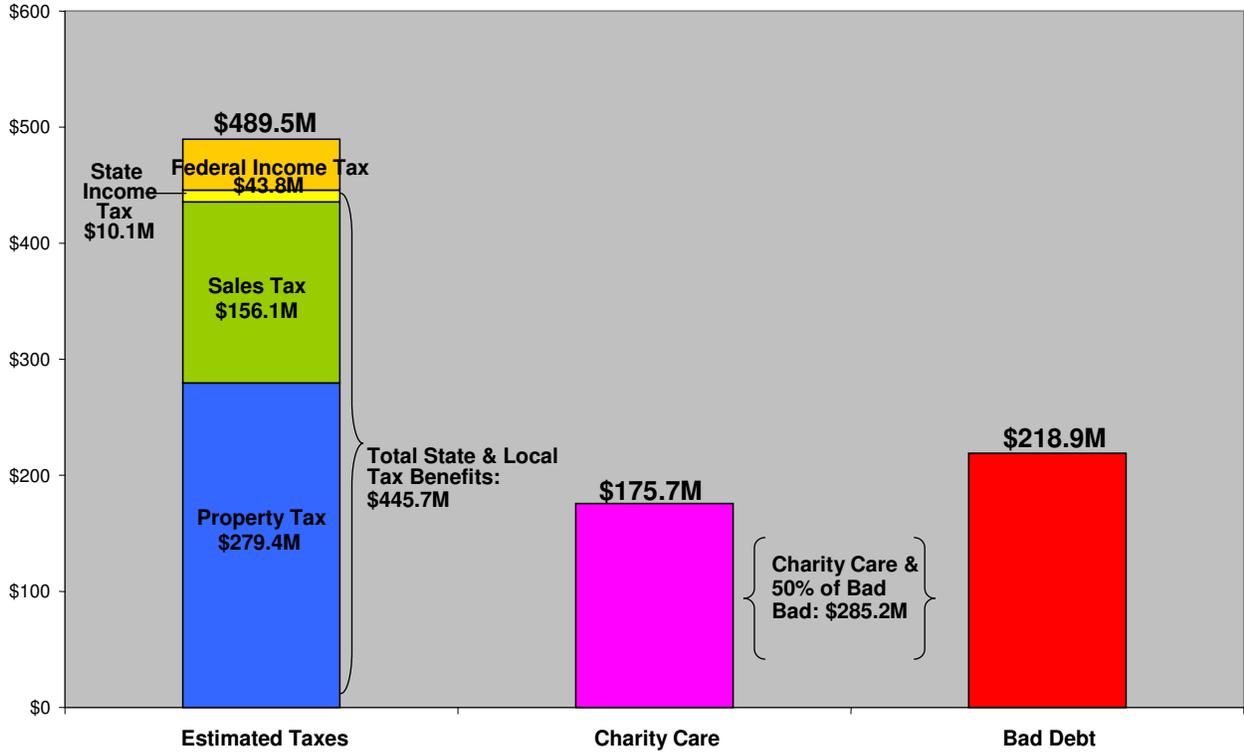
This study analyzes 27 non-profit hospitals and hospital networks in Chicago and the Metropolitan Area (the “Hospitals Studied”). When hospitals that are included in a hospital network are counted, the study includes 47 hospitals total. The study compares the value of the tax exemptions granted to the Hospitals Studied to the cost of the charity care they reported providing in return. Following are the key findings of this study.

- **The Hospitals Studied receive annual tax breaks worth nearly three times the cost of charity care provided.** The most recent annual value of all tax exemptions granted to the non-profit Hospitals Studied is estimated to be \$489.5 million, while the cost of the charity care provided by those Hospitals was \$175.7 million.

- **The amount of the excess tax benefit (the amount by which the value of the tax breaks exceeds the charity care provided) received by the Hospitals Studied – \$327.2 million – would cover the cost of providing charity care to an additional 47,836 low-income, uninsured patients based on the national average cost of a hospital discharge.<sup>9</sup>**
- **Virtually all of the Hospitals included in both this study and in the 2006 Report increased the aggregate amount of charity care delivered over the last three years.** For the Hospitals Studied in both reports, on average, the cost of charity care reported increased from 1.8 percent of total expenses in the 2006 Report, to 2.2 percent of total expenses in this study. It is important to note that this follow-up study to the 2006 Report includes many hospitals the original study did not because at the time of the 2006 Report, charity care data for many hospitals was not yet available.
- **The Hospitals Studied in both this study and in the 2006 Report increased their aggregate charity care provided by \$40.1 million.**
- **The estimated annual value of all tax exemptions received by the Hospitals Studied in both this study and in the 2006 Report increased by \$93.9 million.**
- **Illinois state and local tax exemptions accounted for 91 percent of all tax benefits granted to the Hospitals Studied.** The local property tax exemption was the most valuable tax benefit conferred to the Hospitals Studied, amounting to 57 percent (\$279.4 million) of the total tax exemptions. The state and local sales tax exemption accounted for 32 percent (\$156.1 million) of all the tax breaks conferred. The property and sales tax exemptions, both of which require charity care, totaled 89 percent of the value of the tax subsidies granted by state and local governments.
- **The value of the tax breaks granted to the Hospitals Studied was on average 3.9 percent of total hospital expenses, while the cost of charity care provided by the same Hospitals was on average 2.1 percent of total hospital expenses.**
- **By simply doing a better job of identifying patients eligible for charity care, the Hospitals Studied could have increased the amount of charity care delivered by \$109.5 million, at no additional cost to such Hospitals.** The Hospitals Studied reported a bad debt cost of \$218.9 million. Bad debt is the amount of uncollectible hospital bills. Many hospital finance experts estimate that approximately 50 percent of hospital bad debt is owed by individuals who would qualify for charity care if they were identified for eligibility prior to going through the collections process.<sup>10</sup> Accordingly, better identification of patients eligible for charity care would have increased the amount of charity care delivered by the Hospitals Studied by \$109.5 million, with a corresponding decrease in bad debt.

Chart 1

**The Estimated Tax Benefits Received by Non-Profit Hospitals Studied,  
Compared to the Cost of Charity Care Provided**



Note: Many hospitals indicate that a significant portion of their bad debt expense would fall within the definition of charity care if it were captured at the beginning of the patient admissions process. We therefore estimated that if 50% of bad debts were identified on the front end of the process, the amount of charity care would increase by \$109.5 million, to \$285.2 million.

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**Chart 2: Estimated Value of the Tax Benefits Received Compared to Charity Care Provided (in millions)**

<b>Hospital/Hospital Network</b>	<b>Total Estimated Tax Benefits Granted</b>	<b>Charity Care Provided</b>	<b>Excess Tax Benefit</b>
Advocate Health Care Network	\$99.6	\$29.1	\$70.5
Alexian Brothers Hospital Network	\$41.7	\$12.8	\$28.9
Evanston-NorthShore (formerly Evanston Northwestern)	\$35.1	\$11.6	\$23.5
Gottlieb Memorial Hospital	\$5.2	\$1.7	\$3.5
Holy Cross Hospital	\$2.2	\$3.5	--
Ingalls Memorial Hospital	\$10.6	\$2.6	\$8.0
Jackson Park Hospital	\$3.9	\$3.1	\$0.8
Little Company of Mary	\$13.7	\$2.7	\$11.0
Loretto Hospital	\$1.0	\$4.8	--
Loyola University Medical Center	\$23.5	\$11.1	\$12.4
Mercy Hospital & Medical Center	\$5.8	\$3.6	\$2.2
Methodist Hospital of Chicago	\$0.8	\$0.5	\$0.3
Mount Sinai	\$3.5	\$5.8	--
Northwest Community Hospital	\$11.2	\$4.3	\$6.9
Northwestern Memorial Hospital	\$48.1	\$20.8	\$27.3
Norwegian American Hospital	\$2.9	\$2.7	\$0.2
Palos Community Hospital	\$12.8	\$3.1	\$9.7
Resurrection Health Care	\$43.4	\$21.5	\$21.9
Roseland Community Hospital	\$0.6	\$3.6	--
Rush North Shore Medical Center	\$5.7	\$1.0	\$4.7
Rush University Medical Center/Rush Oak Park	\$37.7	\$5.2	\$32.5
Saint Anthony Hospital	\$2.4	\$4.0	--
St. Bernard Hospital	\$1.9	\$2.7	--
South Shore Hospital	\$0.6	\$1.3	--
Swedish Covenant Hospital	\$9.9	\$1.4	\$8.5
Thorek Hospital	\$7.0	\$1.2	\$5.8
University of Chicago Hospitals	\$58.6	\$10.0	\$48.6
<b>TOTAL</b>	<b>\$489.4</b>	<b>\$175.7</b>	<b>\$327.2</b>

**Chart 3: The Estimated Value of Each of the Tax Exemptions for All Hospitals Studied**

<b>Hospital</b>	<b>Estimated Value of Property Tax Exemption</b>	<b>Estimated Value of the State and Local Sales Tax Exemption</b>	<b>Estimated Value of Illinois Income Tax Exemption</b>	<b>Estimated Value of Federal Income Tax Exemption</b>	<b>Estimated Value of All Tax Exemptions</b>
Advocate Health Care Network	\$56,518,583	\$31,764,838	\$2,139,173	\$9,235,952	\$99,658,546
Alexian Brothers Hospital Network	\$21,822,588	\$7,968,068	\$2,243,129	\$9,684,786	\$41,718,571
Evanston NorthShore (formerly Evanston Northwestern)	\$21,945,266	\$13,176,660	\$0	\$0	\$35,121,927
Gottlieb Memorial Hospital	\$2,868,574	\$1,887,846	\$79,029	\$341,212	\$5,176,661
Holy Cross Hospital	\$868,024	\$1,270,517	\$0	\$0	\$2,138,542
Ingalls Memorial Hospital	\$5,870,107	\$3,279,185	\$257,442	\$1,122,223	\$10,528,956
Jackson Park Hospital	\$1,678,056	\$539,805	\$322,754	\$1,397,839	\$3,938,455
Little Company of Mary	\$7,088,853	\$2,329,801	\$818,976	\$3,541,079	\$13,778,709
Loretto Hospital	\$791,327	\$176,244	\$0	\$0	\$967,572
Loyola University Medical Center	\$10,970,461	\$12,557,923	\$0	\$0	\$23,528,384
Mercy Hospital	\$3,458,490	\$2,301,611	\$0	\$0	\$5,760,101
Methodist Hospital of Chicago	\$199,319	\$598,418	\$0	\$0	\$797,737
Mount Sinai	\$2,140,325	\$1,444,388	\$0	\$0	\$3,584,713
Northwest Community Hospital	\$6,525,396	\$4,670,580	\$0	\$0	\$11,195,975
Northwestern Memorial Hospital	\$33,886,354	\$14,235,368	\$0	\$0	\$48,121,722
Norwegian American Hospital	\$1,964,660	\$904,411	\$0	\$0	\$2,869,072
Palos Community Hospital	\$5,685,231	\$4,090,463	\$547,425	\$2,363,527	\$12,686,646
Resurrection Health Care	\$26,641,030	\$16,798,921	\$9,072	\$39,166	\$43,488,188
Roseland Community Hospital	\$352,844	\$299,104	\$0	\$0	\$651,948
Rush North Shore Medical Center	\$2,445,954	\$3,304,607	\$0	\$0	\$5,750,561
Rush University Medical Center & Rush Oak Park	\$24,050,964	\$13,646,771	\$0	\$0	\$37,697,735
Saint Anthony Hospital	\$1,670,358	\$670,885	\$0	\$0	\$2,341,244
St. Bernard Hospital	\$1,050,270	\$726,413	\$18,109	\$78,188	\$1,872,981
South Shore Hospital	\$357,254	\$258,817	\$0	\$0	\$616,071
Swedish Covenant Hospital	\$6,042,093	\$2,820,834	\$206,113	\$889,901	\$9,958,940
Thorek Hospital	\$3,100,575	\$804,674	\$574,848	\$2,481,927	\$6,962,024
University of Chicago Hospitals	\$29,455,449	\$13,594,201	\$2,931,950	\$12,658,796	\$58,640,397
<b>Total</b>	<b>\$279,448,407</b>	<b>\$156,121,354</b>	<b>\$10,148,020</b>	<b>\$43,834,597</b>	<b>\$489,552,378</b>

## Endnotes

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<sup>1</sup> Center for Tax and Budget Accountability, “An Analysis of the Tax Exemptions Granted to Cook County Non-Profit Hospitals and the Charity Care Provided in Return,” May 2006.

<sup>2</sup> Kaiser Family Foundation and the Health Research and Educational Trust, “Employer Health Benefits Survey 2008 Annual Survey,” 2008.

<sup>3</sup> Center on Budget and Policy Priorities, “13 States Face Total Budget Shortfalls of at Least \$23 Billion in 2009; 11 Others Expect Budget Problems,” December 18, 2007.

<sup>4</sup> Illinois Office of the Comptroller, “FY2010 Budgetary Outlook.” <http://www.ioc.state.il.us/ioc-pdf/dwhreportFeb2009.pdf>; Center for Tax and Budget Accountability’s analysis of the Illinois Commission on Government Forecasting and Accountability’s updated FY 2009 revenue estimate (published November 2008), FY 2009 state short term borrowing, FY 2008 Medicaid liability carryover to FY 2009 and decrease in potential FY 2009 revenue from the sale of the 10<sup>th</sup> casino license.

<sup>5</sup> National Association of State Budget Officers, “Fiscal Year 2007 State Expenditure Report,” December, 2008.

<sup>6</sup> U.S. Census Bureau data on health insurance coverage for 2007.

<sup>7</sup> Kaiser Commission on Medicaid and the Uninsured, “Rising Unemployment, Medicaid and the Uninsured,” January 2009 (estimating the increase in number of uninsured based on unemployment rates of seven percent, up to ten percent).

<sup>8</sup> Art. IX, Sec. 6, Illinois Constitution of 1970, 35 ILCS 15-65, *Methodist Old People’s Home v. Korzen*, 39 Ill.2d 149 (1968), 35 I.L.C.S. 120/1g, 86 Il. Admin. Code § 130.2005.

<sup>9</sup> U.S. Department of Health and Human Services, Agency for Healthcare Research and Quality (2006 data on the national average cost of a hospital discharge).

<sup>10</sup> J. Colombo, *Hospital Property Tax Exemption in Illinois: Exploring the Policy Gaps*, 37 Loy. U. Chi. L.J. 493, 519 (2006).