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# The Civic Federation

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## Civic Federation Position Statement on Charitable Property Tax Exemptions for Non-Profit Hospitals

February 27, 2012

The Civic Federation **supports** the continuation of property tax exemptions for non-profit hospitals that qualify as charitable organizations. However, the General Assembly must establish clear, definable standards of eligibility. This will enable hospitals to be certain about the minimum amount and kinds of care they are required to provide in order to receive a charitable designation from the State of Illinois and will provide the Illinois Department of Revenue with definitive, transparent criteria by which to approve or deny exemptions.

The Civic Federation's position with regard to the charitable property tax exemption generally is that exempt status should be reserved for institutions and facilities that provide public benefits. Exemptions should also be narrowly applied so as to guard against excessive exemptions because tax exemptions shift the property tax burden onto other properties. The Federation strongly urges the General Assembly to establish clear standards of eligibility on property tax exemptions for all exempt property, but issues the following recommendations on the specific topic of non-profit hospitals to assist the State of Illinois and stakeholders as they negotiate legislation requested by Illinois Governor Pat Quinn for March 1, 2012. The Governor wants the recommended legislation to address uncertainties with regard to the lack of clear standards in the Illinois Constitution and State law on the charitable property tax exemption as applied to non-profit hospitals.

The Civic Federation makes recommendations with regard to 1) a quantitative threshold that non-profit hospitals must meet to qualify for a property tax exemption and 2) what kinds of activities and expenditures may be counted toward such a threshold.

### **Constitutional Amendment**

To eliminate any possible uncertainty as to whether the General Assembly lacks plenary authority to define clear legislative standards of eligibility because of judicial decisions limiting "charitable use" under Article IX, Section 6 of the Illinois Constitution to criteria defined by the courts, the Civic Federation recommends that, longer term, a constitutional amendment be proposed to confirm such authority in the General Assembly.

### **Quantitative Threshold**

The Civic Federation supports the concept of establishing a threshold level of public benefit a non-profit hospital must provide in order to receive a charitable property tax exemption that is equal to the estimated tax bill for the hospital property if it did not receive an exemption. That is, an equalized assessed value should be calculated for an existing hospital property or new hospital project and the applicable local tax rate for the property applied to that value to produce an estimated "tax bill." In order

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to receive a property tax exemption, a non-profit hospital would then need to provide charitable care and certain other community benefits in a dollar amount equal to or greater than the property tax bill the hospital would pay if the exemption were not provided. This standard would give hospitals a definitive number to work toward annually and give the Department of Revenue a consistent, transparent standard by which to evaluate newly requested charitable exemptions or the continuation of existing exemptions. A threshold based on the value of the foregone property tax revenue also has a clearer, more logical rationale than simply choosing an arbitrary percentage of revenues.

Non-profit hospital property receiving a charitable property tax exemption is not currently assessed, so any reform legislation would need to carefully consider whether local assessors or the Illinois Department of Revenue should be responsible for determining the estimated full market value of non-profit hospital property.<sup>1</sup> Such legislation should also delineate an assessment method to be used to determine the value of the hospital property, per the requirements of Illinois state statute.<sup>2</sup>

### **Charitable Use**

The Illinois Department of Revenue, presumably in an effort to implement recent court decisions, is currently interpreting the legal definition of “charitable use” with regard to non-profit hospitals as requiring a certain amount of free and discounted care provided to patients. However, the Civic Federation’s position is that this standard does not account for enough of the subsidy to the State non-profit hospitals provide by caring for low-income and uninsured patients. Hospitals are not reimbursed in full for the expenditures they make in providing care for patients eligible for Medicaid and other means-tested programs and for Medicare patients. Furthermore, it is sometimes difficult for hospitals to distinguish between bad debt and charitable care if an uninsured patient does not disclose their ability to pay when admitted. According to accounting rules, hospitals must classify unpaid bills as bad debt if it is unknown whether a patient qualifies for charity. Thus, a hospital may eventually write off bad debt from patients who could not pay and would have qualified for charity care—in effect giving them free care—though such bad debt does not by legal definition count as “charity care.”

The Department’s current interpretation of “charity care” in Illinois also does not take into account possible future reductions in the number of uninsured people when certain federal health care reform provisions are scheduled to take effect in 2014. The expansion of Medicaid rolls in 2014 is expected to reduce the number of uninsured persons in Illinois,<sup>3</sup> thereby reducing the amount of free or discounted care needed. This reduction could potentially jeopardize the property tax exemption for all non-profit hospitals as the amount of traditionally-defined “charity care” they are able to provide decreases, but the number of Medicaid-eligible residents increases.

Therefore, the Federation recommends that the General Assembly consider additional expenditures a hospital makes beyond the value of free and discounted care when determining

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<sup>1</sup> The Department of Revenue is responsible for assessing pollution control facilities, low sulfur dioxide coal fueled devices, railroad operating property and regional water treatment facilities. 35 ILCS 200/11-5 through 11-170.

<sup>2</sup> 35 ILCS 200/1-50.

<sup>3</sup> Illinois General Assembly Advisory Committee on Medicaid, Costs 2014, HFS Handouts, November 8, 2011.

what activities and expenditures count toward the quantitative property tax exemption threshold. Specifically, the Federation recommends including additional community benefits related to the cost of care such as unreimbursed expenses for Medicaid and other means-tested programs, unreimbursed Medicare expenses and a portion of bad debt.

Including community benefits related to the cost of care will help to fulfill the intent of the charitable property tax exemption by ensuring the public good non-profit hospitals provide by caring for low-income and uninsured patients is not diminished by requiring payment of taxes. At the same time, the interests of taxpayers would be protected by a tax exemption that is narrow enough to guard against excessive exemptions that increase the burden for all taxpayers.