CALIFORNIA

Making the hospital tax exemption work for California

An analysis of nonprofit hospital tax exemptions and community investments

SUMMARY

California nonprofit hospitals receive $2.8 billion in tax benefits each year

The Lown Institute analyzed how much 203 nonprofit hospitals in California received in tax benefits and spent on free care and community health initiatives from 2020-2022. Data sources for this analysis include IRS Form 990, CMS hospital cost reports, and municipal property data.

KEY TAKEAWAYS

- From 2020-2022, **53% of private nonprofit hospitals in California had a "fair share deficit,"** meaning they received more in tax benefits than they spent on meaningful community investments.
- The total fair share deficit for California hospitals was **$1.5 billion each year**. That's enough to feed all children in California facing **food insecurity**, create 10,000 more **affordable housing** units, or wipe out nearly half of **medical debt** in the state.
- Some of the **largest fair share deficit and surplus hospitals in the state are in Los Angeles**, reflecting that there are "have and have nots" in the Los Angeles hospital market.

$1.5 BILLION

COULD BE PUT BACK INTO THE COMMUNITY

FOOD

HOUSING

DEBT

INTRODUCTION

Nonprofit hospitals enjoy significant tax exemptions worth millions of dollars, and in return are expected to contribute to their communities through financial assistance and investments in community health. However, lax regulation leads to significant variation in the amount hospitals give back to their communities.

The Lown Institute has undertaken a comprehensive project across 20 states to assess hospitals' tax benefits and compare them to their community investments, what we call "Fair Share Spending." This initiative aims to identify hospitals that could do more for their communities, highlight leaders in community investment, and expose systemic issues within our healthcare system that lead to underspending.

TAX EXEMPTION VALUE RESULTS

From 2020-2022, California hospitals received $2.8 billion in tax breaks each year, an average of $14.7 million per hospital or 3% of expenses (a lower rate than the 20-state average).

High incomes for some hospitals drove large income tax breaks, with 17 hospitals reporting at least $100 million in net income per year on average.

INCOME, PROPERTY TAX LARGEST CATEGORIES OF HOSPITAL TAX EXEMPTION

Tax exemption category	Total amount (per year average, 2020-2022)	% of total tax exemption, California
Federal income tax	$982 million	35%
Local property tax	$721 million	26%
State income tax	$480 million	17%
Value of tax-exempt donations	$385 million	14%
Value of tax-exempt bonds	$234 million	8%
Federal unemployment tax	$11 million	0.4%
State and local sales tax*	$0	0%
Total	**$2.8 billion**	**100%**

Nonprofit hospitals not exempt from sales taxes in CA

The property tax exemption is another significant portion of the total exemption, driven by several hospitals in the San Francisco and Silicon Valley areas. For example, Stanford Hospital owns $4.4 billion worth of real estate and CPMC Van Ness in San Francisco owns $2.9 billion, according to county assessment data.

COMMUNITY INVESTMENT RESULTS

From 2020-2022, nonprofit hospitals in the state spent $1.8 billion on financial assistance and other community investments each year, an average of $9.5 million per hospital or 2.4% of expenses.

Financial assistance (free and discounted care for eligible patients) made up the largest proportion of total community investment (41%), possibly due to California' financial assistance requirements. Subsidized health services (clinical services that meet an identified community need, provided at a loss to the hospital) were the second-largest contributor, making up 28% of total community investment.

California hospitals spend slightly more proportionally on community health improvement and community building activities (categories of spending that encompass social supports) than other states on average, a positive sign that they are interested in addressing upstream health needs.

FINANCIAL ASSISTANCE LARGEST CATEGORY OF COMMUNITY INVESTMENT

Community investment category	Total spending (per year average, 2020-2022)	% of total community investment, California
Financial assistance	$753 million	41%
Subsidized health care services	$504 million	28%
Community health improvement services	$316 million	17%
Cash and in-kind contributions	$210 million	12%
Community building activities	$37 million	2%
Total	**$1.8 billion**	**100%**

FAIR SHARE SPENDING RESULTS

"Fair share spending" is the difference between hospitals' tax exemptions and community investment.

On average, 53% of hospitals received more in tax breaks than they spent on community investment from 2020-2022. Hospitals with a fair share deficit had a collective deficit of about $1.5 billion each year.

For most high-deficit hospitals, their fair share deficits are due to large tax exemptions driven by their wealth and size. However, low community investment spending also plays a role. Eight of these hospitals spent less than the state average rate on community investment.

Two of the largest-deficit hospitals and two of the largest-surplus hospitals are in Los Angeles County. This reflects a pattern in urban hospital markets in which higher-resourced hospitals are often inaccessible to low-income patients, while "safety net" hospitals that serve more of these patients operate on thin margins.

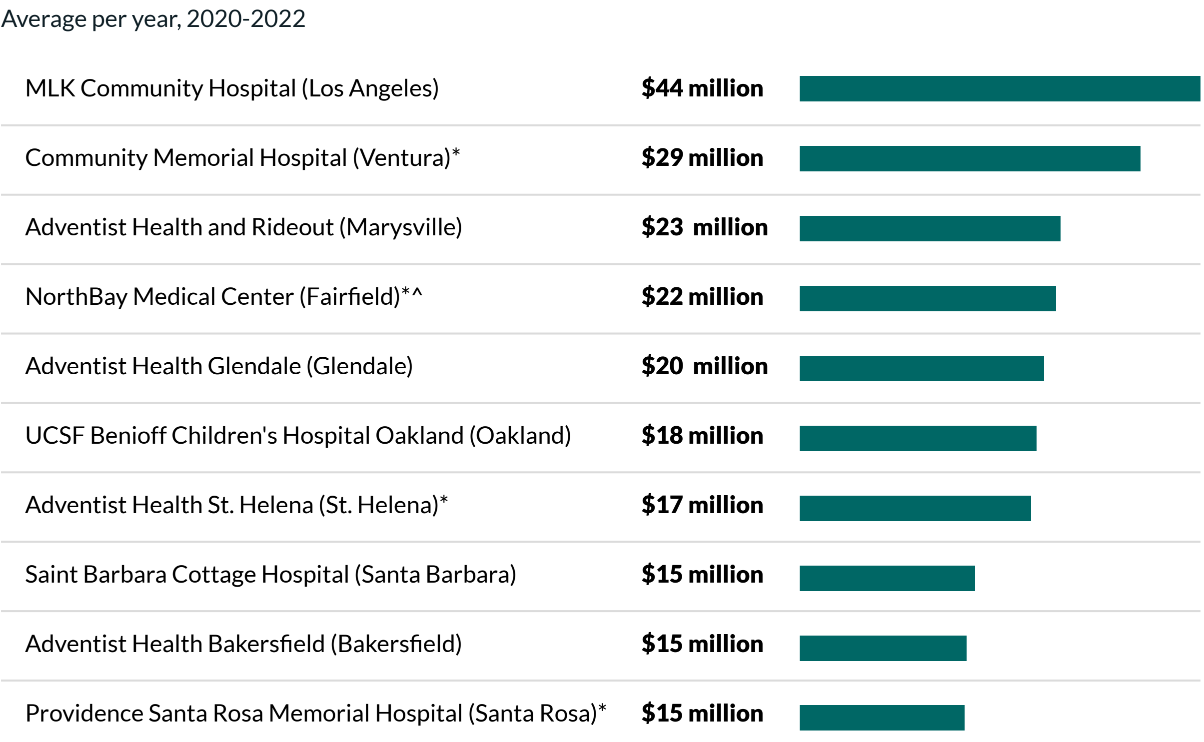
HOSPITALS WITH THE LARGEST FAIR SHARE DEFICITS IN CALIFORNIA

Average per year, 2020-2022

Deficit	Hospital
-$104 million	Cedars-Sinai Medical Center (Los Angeles)
-$65 million	Stanford Hospital (Stanford)
-$62 million	Kaiser Permanente Los Angeles Medical Center (Los Angeles)*
-$51 million	Hoag Hospital Newport Beach (Newport Beach)*^
-$51 million	Valley Children's Hospital (Madera)*
-$49 million	Scripps Memorial Hospital La Jolla (La Jolla)*
-$47 million	Sharp Memorial Hospital (San Diego)*
-$47 million	Kaiser Permanente Orange County - Anaheim Medical Center (Anaheim)*^
-$46 million	Loma Linda University Medical Center (Loma Linda)^
-$45 million	Kaiser Permanente Roseville Medical Center (Roseville)*

**IRS information prorated across multiple hospitals*
^Includes more than one hospital campus within same CMS ID

HOSPITALS WITH THE LARGEST FAIR SHARE SURPLUSES IN CALIFORNIA



**IRS information prorated across multiple hospitals*
^Includes more than one hospital campus within same CMS ID

All of the highest-surplus hospitals above gave more proportionally in community investment than the state average, and six of these hospitals gave at more than twice that rate. The total community investment of these ten hospitals made up more than 15% of the state's total community investment.

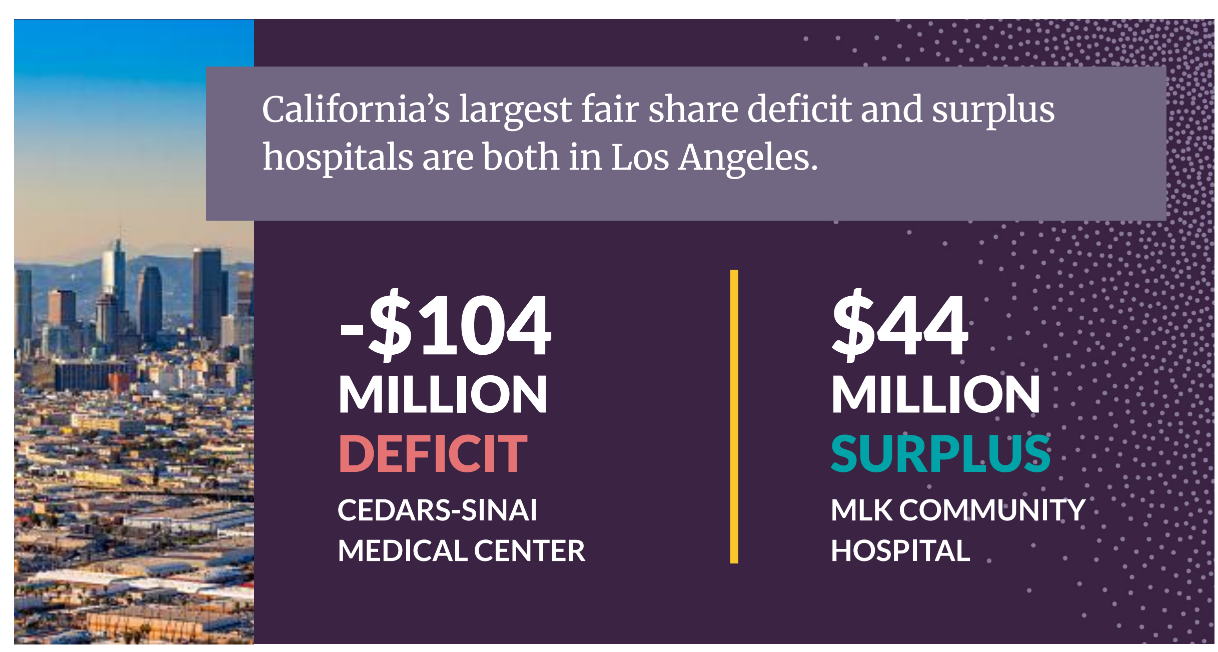
Examples of community investments by these hospitals include case management, food assistance, mobile health services, peer support groups, healthcare for the homeless, telemedicine for behavioral health, health screenings, CPR classes, and more.

While subsidized health services make up a substantial proportion of hospitals' reported community investment, some hospitals provided little information about their spending in this category.

HOW COULD FILLING GAPS IN FAIR SHARE SPENDING IMPROVE COMMUNITY HEALTH?

The $1.5 billion annual fair share deficit is enough to:

- ➔ **Feed 2 million people facing hunger** in California. Nearly 5 million people in California struggle with food insecurity, including 1.4 million children (Feeding America).
- ➔ **Increase Behavioral Health Bridge Housing Program** funding by 70% or convert 10,000 more buildings into housing units via the Homekey Program (CA HCS; CA Auditor). About 1 in 10 adults in California report struggling to pay rent or mortgage, in addition to the 180,000 Californians that are unhoused (CHCF).
- ➔ **Wipe out medical debt for 840,000 Californians** who owe $2,000 or less in medical debt. An estimated 1,170,000 adults in California owed medical debt each year in 2019-2021 (Peterson-KFF Health System Tracker).
- ➔ **Hire 11,000 more nurses** (Bureau of Labor Statistics). Nearly 80% of Californians believe that increasing the number of healthcare providers in the state is extremely or very important (CHCF).



One in ten Los Angeles County residents is burdened by **medical debt.**

POLICY IMPLICATIONS

California can build on existing policies to improve transparency, reduce medical debt, and support safety net hospitals.

TRANSPARENCY

California is one of several states with its own community benefit reporting requirement. However, a recent analysis from California Healthcare Foundation found that hospitals do not provide enough information to "determine whether the plans reflect activities and priorities identified in the community health needs assessment (CHNA)."

California could adjust their regulations and **ask hospitals to specify how much they spend specifically on CHNA-identified health needs**, as Massachusetts does. Additionally, the state could follow the lead of Los Angeles County and ask hospitals to **submit data on their debt collection activities** and the frequency of financial assistance applications and approvals.

ACCOUNTABILITY

California has substantial regulations around financial assistance and medical debt protections, including eligibility standards for discounts, limitations on asset tests for eligibility, and prohibition of medical debt on credit reports or primary care liens. Yet many Californians still face burdensome medical debt.

To improve access to financial assistance, California could enhance its existing financial assistance standards by creating a **"common app"** across hospitals to simplify the application process or requiring hospitals to **screen certain patients for assistance** before billing.

MAKING THE SYSTEM EQUITABLE

Fair share spending in California reflects the problem of "have and have nots" within the hospital system, as some of the largest fair share deficit and surplus hospitals are in the same metro area.

To address these inequities, policymakers could implement a local assessment on hospital income or **payment in lieu of taxes (PILOT) program** for hospitals with low community investment. This pool of funds could be used by the local public health department to address community health needs and medical debt, or to relieve uncompensated care burden for safety net hospitals.

HOSPITAL CLOSURES AND EXPANSIONS

Policymakers have proposed legislation to **require advance notice** before closing maternity and psychiatric services and to assess the impact on the community before closing. Such legislation could include an evaluation of hospitals' financial status and fair share spending, to assess whether hospitals can increase their spending on subsidized services and keep these services open.

Policymakers should also **evaluate proposed hospital expansions** for their potential impact on state and local revenue; for example, Scripps Health's planned partnership with for-profit Acadia psychiatric services.

METHODOLOGY

The study analyzed six types of tax exemptions enjoyed by hospitals in California, including federal and state income tax, federal unemployment tax, property tax, and the values of tax-exempt donations and bonds. Hospital net income data was sourced from CMS hospital cost reports. Information on tax-exempt donations and bonds was obtained from IRS Form 990. Three years of data (2020-2022) were included. Public hospitals that do not file a 990 such as UCLA were not included.

Community investments were identified from IRS Form 990 Schedule H, including the following categories: financial assistance, community health improvement services, subsidized healthcare services, contributions to community groups, and community building activities. For hospitals that filed as a group, community investment data was prorated according to hospitals' share of system charity care.

Notably, Kaiser Permanente files as a group with 31 California hospitals. Kaiser Permanente hospitals did not have available HCRIS data prior to 2021, therefore we only have fair share data for 2021 and 2022 for these hospitals.

163 Highland Avenue, Needham, MA 02494
lowninstitute.org 617.992.9322
Media contact: AToleos@lowninstitute.org
Policy contact: JGarber@lowninstitute.org

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