How States Can Leverage Hospital Community Benefit Policies to Advance Health Equity

March 16, 2021

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COVID-19 has highlighted long-standing health inequities across the United States

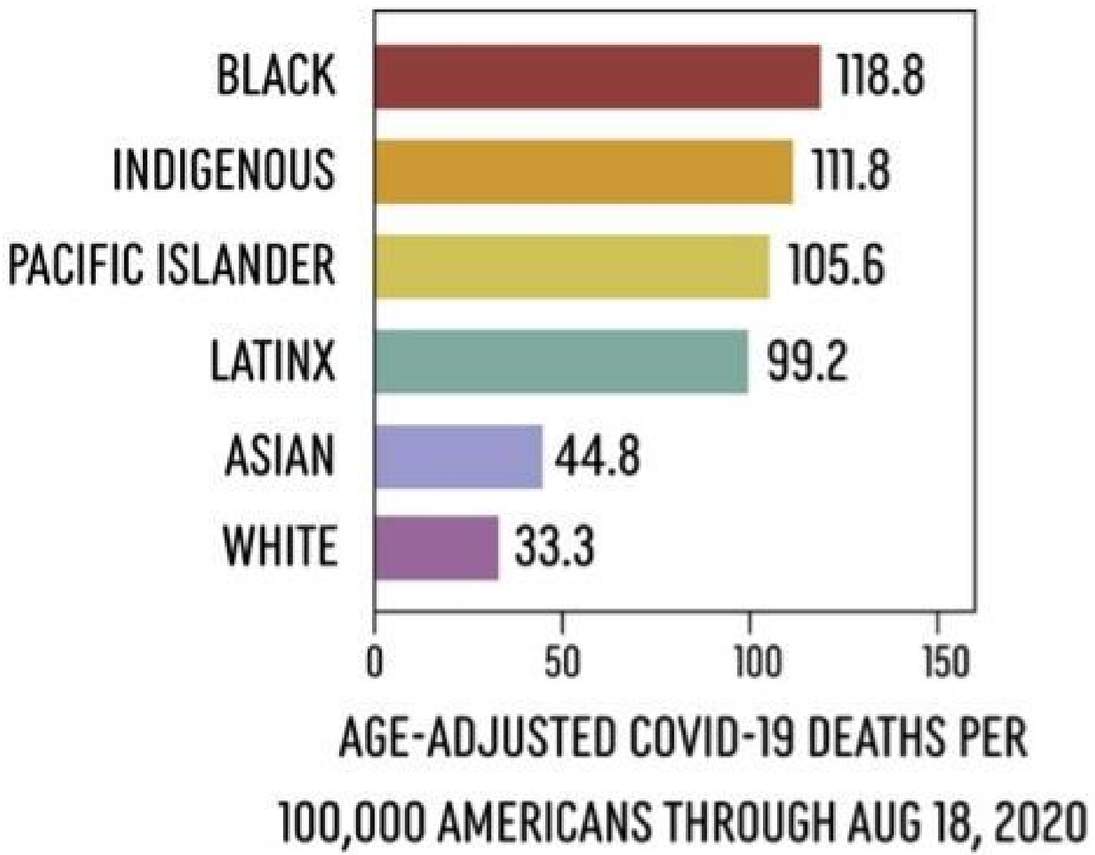

Image source: Olivia Foster Rhoades, Harvard University
http://sitn.hms.harvard.edu/flash/2020/racial-disparities-in-covid-19/

COVID-19 has a disproportionate impact on communities of color.

- At the same time, states face revenue challenges leading to budget shortfalls and cuts.
- Hospitals are a vital part of the frontline response to COVID-19 and they have also received significant federal relief funding.
- In exchange for the tax exemptions they receive, hospitals can play an important role in COVID-19 recovery by making meaningful investments in their communities.

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Investing in social determinants of health can reduce health disparities and advance equity

- Interventions that address community needs such as housing, income and nutrition support, care coordination, and community outreach can improve health outcomes and reduce health care spending.

- Addressing social needs is also shown to reduce racial disparities.

- Hospitals play an important role in communities as anchor institutions and have an obligation to address these issues.

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How do hospitals learn what communities need?

- The Affordable Care Act requires nonprofit hospitals to conduct community health needs assessments (CHNAs) every three years.

- A CHNA's goal is to identify the most critical health priorities with the help of community members.

- Each hospital must complete a CHNA and develop an implementation strategy to address identified community needs in order to maintain its nonprofit status.

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Do hospital community benefit dollars address identified needs?

- A 2017 study found that in hospital CHNAs:
  - 65% cited health disparities/health equity explicitly;
  - 100% referenced health equity implicitly; and
  - 75% reported external stakeholders identified a need for health equity.
- Yet, 45% of nonprofit hospitals prioritized health equity in their CHNAs and 9% included strategies to address health disparities in their implementation plans.
- Because there is no required connection between their implementation plan and community benefit expenditures, it is impossible to tell if hospitals are addressing the identified disparities.

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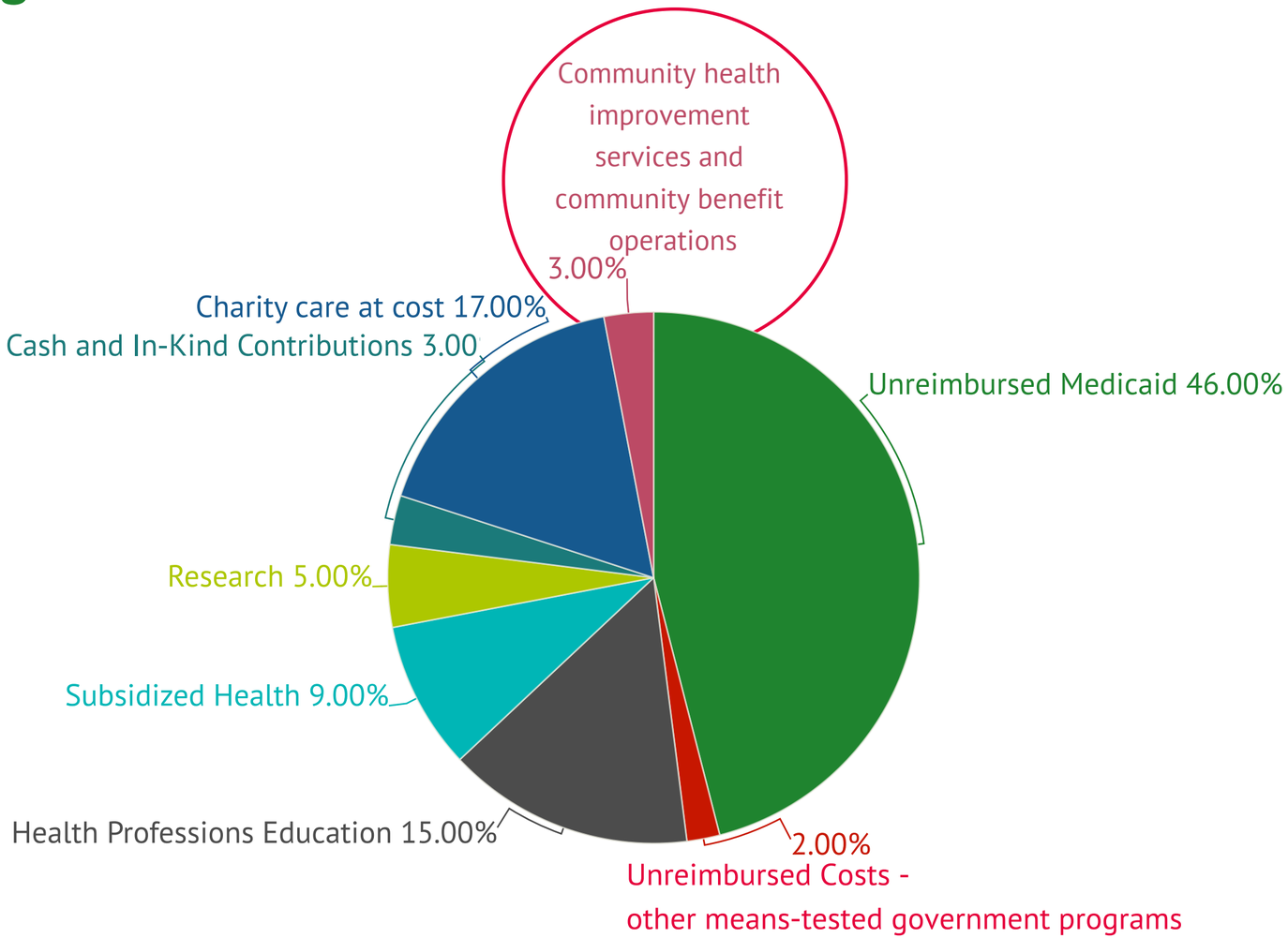
Does hospital community benefit spending address social determinants of health?

- Spending categories are not well defined in current IRS reporting requirements.
- The vast majority of community benefit spending is on medical services, not social determinants of health.
- In FY 2016, only 3% of community benefit spending went to community health improvement.



Current oversight and spending are insufficient for improving community health and advancing equity

No minimum spending level required from hospitals

- Nonprofit hospitals received over $24 billion in tax exemptions in 2011.
- In exchange, hospitals must provide community benefit investments.
- There is no federal minimum level of community benefit spending required.

Hospital spending not tied to community needs

- Compared to overall community benefit spending, spending on social determinants of health remains low.
- Community health needs assessments identify health equity priorities, but there is no oversight for spending on those needs.

Health disparities persist

- The disparate impact of COVID-19 has illustrated that prior efforts to address inequities were insufficient.
- Spending on community building, those activities that protect or improve a community's health or safety, accounted for a median of 0.04% of total operating expenses by US hospitals in FY 16.
- A report found that in one state the hospital community benefit program had no impact on community health.

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States can lead the way to ensure meaningful community benefit spending

Minimum community benefit investment

- In exchange for their tax exemptions, nonprofit hospitals must provide community benefit investments.
- States can require minimum spending on community benefit.

Spending tied to community need

States can:

- Tie hospital community benefit spending to needs identified by the CHNA;
- Require community service investments from hospitals; and
- Require hospitals to link spending to community health improvement activities for maximum impact.

Spending is impactful and advances equity

- States can evaluate the impact of community benefit programs.
- States can use community benefit policies to address social determinants of health and advance equity.

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States can address health inequities through community benefit policies

- Since 2017, NASHP has convened state officials to address community benefit practices, programs, and policies.
- States have a variety of levers to address transparency, reporting, and impact of community benefit spending.
- Analysis of IRS Form 990s found there is an increase in community benefit spending in states with minimum spending requirements.

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States can require minimum spending on community benefit

- Utah and Illinois require nonprofit hospitals to spend the amount of their property tax on community benefit in order to qualify for the exemption.

- In 2019, Oregon created a minimum community benefit spending floor for nonprofit hospitals.

    - The Oregon Health Authority set its first spending floor in January 2021. Legacy Health will be required to spend $253 million in FY 2022 based on its "previous levels of unreimbursed care; its direct spending on the social determinants of health, health equity, and other community benefits; and its operating margin."

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States can include community benefit requirements in their regulation of hospitals

- Massachusetts' Community-Based Health Initiative requires hospitals applying for a determination of need to connect their spending to identified health priorities.

- Connecticut used a certificate of need tied to a hospital merger to implement community benefit reforms including:
    - Increasing the total dollars spent on community benefits by at least 1% every year for five years;
    - Ensuring spending and activities directly address the health needs identified by the hospital's CHNA; and
    - Submitting documentation to the state that describes each community-building activity and amount spent.

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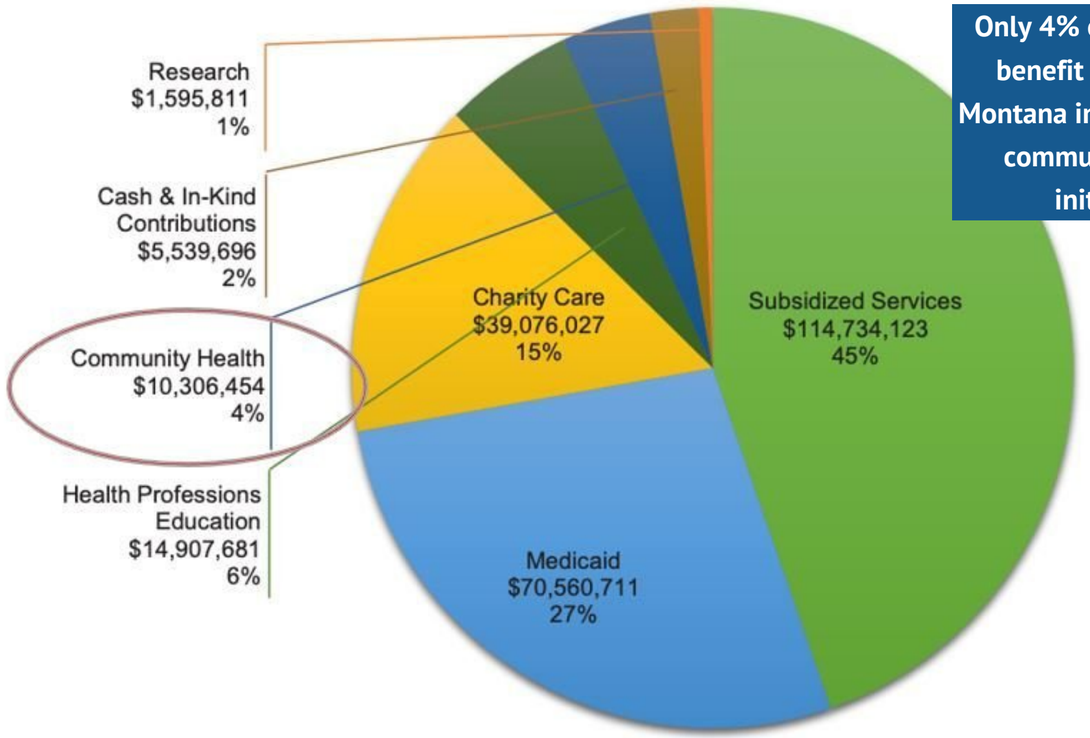
State audits can be used to determine the impact of community benefit spending

- In September 2020, the Montana Legislative Audit Division released a report examining community benefit and charity care obligations at Montana nonprofit hospitals.

- The report concluded:
  - "Community benefit spending has no real impact on the health of Montanans;"
  - The legislature should enact laws to address community benefit reporting and spending.

Figure 2

Self-Reported Community Benefit Spending by IRS Category - 2016



Only 4% of community benefit spending in Montana in 2016 went to community health initiatives.

The 8th category, Other Means Tested Government Programs, does not appear on this figure as it is approximately $30,000, making it is less than 1 percent of the overall spending of $250 million.

Source: Compiled by the Legislative Audit Division from Internal Revenue Service records.

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States can require hospitals to link spending to community health improvement activities

- Nonprofit hospitals in Maryland are required to submit an annual report to the Maryland Health Services Cost Review Commission.
    - The report must include hospital community benefit initiatives, the cost of each initiative, and a description of hospital efforts to track and reduce health disparities.
- New York requires hospital Community Health Improvement Plans to address goals in the 2019-2024 Prevention Agenda. Hospitals are also required to report their spending in relation to prevention agenda goals.

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States can require hospitals to invest in communities through community service contributions

- In Feb 2021, New Jersey Gov. Phil Murphy signed legislation that requires nonprofit hospitals to pay a $3 daily per-bed community service contribution to their local governments.
    - Hospitals contributing more than 12% of their operating budget to community benefit spending will be exempt from the contribution. Currently 10 out of 56 nonprofit hospitals* spend more than 12% on community benefit activities.
- The purpose of the contribution is to support local governments in providing services that taxes on these hospitals might otherwise support.

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Additional Resources

- Hospital community benefit spending is an important tool for states in their health and economic recovery from COVID-19.
    - NASHP Blog: Oregon and Connecticut Hold Hospitals Accountable for Meaningful Community Benefit Investment
    - NASHP Tool: Hospital Community Benefit Spending on Health Equity
    - NASHP Chart: How 10 States Connect their Health Improvement Goals to Hospital Community Benefits
    - NASHP Community Benefit Resource Center
- To learn more or join NASHP's work on community benefit, contact Elinor Higgins ehiggins@nashp.org

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