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SB 774

March 5, 2020

TO: Members of the Senate Finance Committee
FROM: Nicholas Blendy, Deputy Director of Government Relations
RE: Senate Bill 774 – Hospitals – Community Benefits
POSITION: SUPPORT

Chair Kelley, Vice Chair Feldman, and Members of the Committee, please be advised that the Baltimore City Administration (BCA) **supports** Senate Bill (SB) 774.

In the United States, seven of the ten most profitable hospitals in the country had a non-profit designation.¹ The majority of U.S. hospitals operate as non-profits; approximately 60% of all US community hospitals have a non-profit designation.² The estimated nationwide value of the non-profit hospital tax exemption was \$24.6 billion in 2011.³ In order to qualify for this tax status, non-profit hospitals are required to provide “community benefits” to the communities in which they are located.⁴ The expansive tax code definition of a community benefit has led to intense disagreement about how community benefits are calculated and whether what non-profits submit as a community benefit actually serves the community (e.g. declaring Medicare “losses” a community benefit).⁵

¹ Bai G & Anderson GF. A More Detailed Understanding Of Factors Associated With Hospital Profitability. *Health Affairs*. Published online: 1 May 2016, vol. 35, no. 5. Available from: <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2015.1193>

² Herring B et al. Comparing the Value of Nonprofit Hospitals’ Tax Exemption to Their Community Benefit. *The Journal of Health Care Organization, Provision, and Financing*. 2018. Vol 55: 1-11. Available from: <https://journals.sagepub.com/doi/pdf/10.1177/0046958017751970>

³ Rosenbaum S et al. The Value of the Nonprofit Hospital Tax Exemption was \$24.6 Billion in 2011. *Health Affairs*. Published online: July 2015, vol 34, no. 7. Available from: <https://www.healthaffairs.org/doi/pdf/10.1377/hlthaff.2014.1424>

⁴ Requirements for 501(c)(3) Hospitals Under the Affordable Care Act – Section 501(r). Internal Revenue Services. 20 Sep 2019. Accessed 28 February 2020. Available from: <https://www.irs.gov/charities-non-profits/charitable-organizations/requirements-for-501c3-hospitals-under-the-affordable-care-act-section-501r>

⁵ James J. Nonprofit Hospitals’ Community Benefit Requirements. *Health Affairs*. 25 February 2016. Available from: <https://www.healthaffairs.org/doi/10.1377/hpb20160225.954803/full/>

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The Affordable Care Act (ACA) added a provision clarifying the community benefit concept, whereby a non-profit hospital would conduct community health needs assessment. Said provision presented an extraordinary opportunity for hospitals and communities to come together in partnership to identify and address barriers to health, including an in-depth examination of the social determinants of health.⁶ Prior to the ACA, there was marked variation in how non-profit hospitals conferred community benefits; for example, most benefit-related expenditures related to patient care services, while little was spent on community health improvement.⁷ Post-ACA, the average community benefits spending by non-profits showed discouragingly little change, increasing by just 0.5%.⁸

The Baltimore City Health Department (BCHD) collaborated with ten City hospitals on the City's community health needs assessment several years ago, and are planning to assist again this year. In addition, BCHD currently collaborates with health systems on initiatives such as Levels of Care for Hospitals Responding to the Opioid Epidemic⁹ and Accountable Health Communities. Given its past and current collaborations, BCA believes the future of Baltimore City's partnership with local hospitals should include a more formal collaboration on shared goals and priorities through SB 774.

Requiring non-profit hospitals to provide greater accountability in how they fulfill community health benefits will incentivize said hospitals, in coordination with local health departments, to determine whether their work is actually meeting needs of our communities. Ultimately, this bill will improve the health of all Maryland residents.

We respectfully request a **favorable** report on Senate Bill 774.

⁶ O'Brien J & Restuccia R. An Extraordinary Opportunity: Hospital Community Benefits. *Health Affairs*. 2014 May 8. Accessed 28 February 2020. Available from: <https://www.healthaffairs.org/doi/10.1377/hblog20140508.038933/full/>

⁷ Young et al. Provision of Community Benefits by Tax-Exempt U.S. Hospitals. *New England Journal of Medicine*. 18 April 2013. Vol 368: 1519-1527.

⁸ Young et al. Community Benefit Spending By Tax-Exempt Hospitals Changed Little After ACA. *Health Affairs*. 2018 January. Vol. 37, no. 1. Available from: <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2017.1028>

⁹ <https://health.baltimorecity.gov/levels-care>.