

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1136
 Health

(Delegate D. Jones)

Nonprofit Hospitals - Community Benefits

This bill alters the definition of “community benefit” to include “government-sponsored indigent care.” Specified nonprofit hospitals must provide community benefits equal to the value of the hospital’s tax-exempt benefits or a percentage of net patient revenue, as specified. Within 120 days after the end of a nonprofit hospital’s fiscal year, the hospital must file a statement with the Health Services Cost Review Commission (HSCRC) detailing how the hospital has provided community benefits. If a nonprofit hospital has not complied with the bill’s requirements, the tax-exempt status of the hospital may be revoked. By December 1, 2028, and annually thereafter, HSCRC must submit a specified report to the Attorney General and the Comptroller that identifies each nonprofit hospital, if any, that failed to provide the community benefits as required. HSCRC must adopt specified regulations. The bill establishes civil penalties for nonprofit hospitals that fail to complete the annual community benefits report.

Fiscal Summary

State Effect: HSCRC special fund revenues increase as early as FY 2027 to the extent civil penalties are imposed. General fund expenditures for the Comptroller increase by \$79,000 beginning in FY 2029 for additional staff, as discussed below. HSCRC special fund expenditures increase by \$325,000 in FY 2027 (and \$10,000 annually thereafter) for consultant services, as discussed below.

(in dollars)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
SF Revenue	-	-	-	-	-
GF Expenditure	\$0	\$0	\$79,000	\$78,100	\$81,600
SF Expenditure	\$325,000	\$10,000	\$10,000	\$10,000	\$10,000
Net Effect	(\$325,000)	(\$10,000)	(\$89,000)	(\$88,100)	(\$91,600)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: “Government-sponsored indigent care” means the unreimbursed cost to a hospital of providing health care services to recipients of a government-based indigent health care program, including Medicaid.

Community Benefits

Except for a nonprofit hospital located in a county with a population of fewer than 50,000 people, a nonprofit hospital must annually provide community benefits that (1) equal at least 100% of the value of the hospital’s tax-exempt benefits or (2) equal at least 5% of the value of the hospital's net patient revenue, if the value of all charity care provided equals at least 4% of the value of the hospital's net patient revenue.

Community Benefits Reporting

By December 1, 2028, and annually thereafter, HSCRC must submit to the Attorney General and the Comptroller a report identifying each nonprofit hospital, if any, that failed to appropriately provide the required community benefits in the immediately preceding fiscal year and, for each nonprofit hospital in the State, a report on:

- the amount of community benefits provided by the hospital;
- the cost to the hospital of each community benefit;
- the amount of net patient revenue;
- the amount that would equal 4% of net patient revenue;
- an itemized calculation demonstrating whether the community benefits provided by the hospital meet specified requirements;
- the value of tax exemptions the hospital claimed during the immediately preceding taxable year; and
- the amount of charity care expenses reported in the hospital’s most recent audited financial statement.

On receipt of the report, the Comptroller must verify that each nonprofit hospital identified in the report has failed to provide the required community benefits.

Noncompliance

If the Comptroller finds that a nonprofit hospital has not complied with the bill's requirements, the Comptroller must revoke the tax-exempt status of the hospital for the immediately following taxable year. A nonprofit hospital may cure a finding of noncompliance by proving that the noncompliance was a result of unintentional miscalculation and providing the remaining required community benefits.

The Comptroller must reinstate the tax-exempt status of a hospital that cures a finding of noncompliance. A hospital may cure a finding of noncompliance only once.

Required Regulations

HSCRC must adopt regulations to implement the recommendations of the Community Benefit Reporting Workgroup that require each nonprofit hospital to conduct its community health needs assessment (CHNA) and to submit an annual community benefits report that includes (1) the cost of the hospital of each community benefit activity, including an itemized report of the cost to the hospital for providing charity care and government-sponsored indigent care and (2) the total operating expenses of the hospital for the immediately preceding fiscal year, computed using generally accepted accounting principles for hospitals.

Civil Penalties

If HSCRC finds that a nonprofit hospital has failed to submit the annual community benefits report, HSCRC must provide the nonprofit hospital with written notice. If the hospital fails to submit the required report within 10 days after receipt of written notice, HSCRC may impose the following civil monetary penalties for each day the hospital fails to submit the report: (1) for a hospital with a bed count of 30 or fewer, \$600; (2) for a hospital with a bed count of at least 31 but not more than 549, \$20 per bed; and (3) for a hospital with a bed count of 550 or more, \$11,000.

Current Law: "Community benefit" means a planned, organized, and measured activity that is intended to meet identified community health needs within a service area. "Community benefit" may include (1) a community health service; (2) health professional education; (3) research; (4) a financial contribution; (5) a community-building activity, including partnerships with community-based organizations; (6) charity care; (7) an activity funded by a foundation; (8) a mission-driven health service; (9) an operation related to a community benefit; and (10) financial or in-kind support of the Maryland Behavioral Health Crisis Response System. Chapter 752 of 2025 expanded the definition of "community benefit" to include a community health worker workforce program between a nonprofit hospital and a community-based organization.

Community Health Needs Assessment

“Community health needs assessment” means the process required by the federal Patient Protection and Affordable Care Act (ACA) by which unmet community health care needs and priorities are identified by a nonprofit hospital in accordance with federal law. Each nonprofit hospital must solicit and take into account input received from individuals who represent the broad interests of that community, including individuals with special knowledge of or expertise in public and behavioral health.

In Maryland, each nonprofit hospital must conduct an annual CHNA and submit an annual community benefits report to HSCRC detailing the community benefits provided by the hospital during the preceding year. The community benefit report must include:

- the mission statement of the hospital;
- a list of the initiatives that were undertaken by the hospital to identify community health needs within the hospital’s community;
- the cost to the hospital of each community benefit activity;
- a description of how each of the listed activities addresses the community health needs of the hospital’s community;
- a description of efforts taken to evaluate the effectiveness of each community benefit activity;
- a description of gaps in the availability of providers to serve the community;
- a description of the hospital’s efforts to track and reduce health disparities in the community that the hospital serves;
- a list of the unmet community health needs identified in the most recent CHNA; and
- a list of tax exemptions the hospital claimed during the immediately preceding taxable year.

HSCRC compiles the required community benefits reports and issues an annual Maryland Hospital Community Benefit Report. The most recent version of the report (fiscal 2024) can be found [here](#). According to the report, all 49 nonprofit Maryland hospitals submitted their required fiscal 2024 community benefit reports.

HSCRC must adopt regulations to implement the recommendations of the Community Benefit Reporting Workgroup that: (1) establish a standard for reporting required information; (2) specify the date by which each nonprofit hospital is required to submit the annual community benefit report; (3) require each nonprofit hospital to solicit and take into account input received from individuals who represent the broad interests of that community, as specified; and (4) require each nonprofit hospital to conduct its CHNA, as specified, and to submit an annual community benefits report detailing the community

benefits provided by the hospital during the preceding year that included specified information.

Hospital Financial Assistance Policies

Each hospital, or related institution, under the jurisdiction of HSCRC must develop a financial assistance policy for providing free and reduced cost medically necessary care to patients who lack health care coverage or whose health care coverage does not pay the full cost of the hospital bill. A patient's family income must be calculated at the time of service or updated, as appropriate, to account for any change in financial circumstances of the patient.

Health Services Cost Review Commission

HSCRC is an independent commission within MDH charged with constraining hospital growth and establishing hospital rates to promote cost containment, access to care, equity, financial stability, and hospital accountability. HSCRC oversees acute and chronic care hospitals. Under the Total Cost of Care Model (TCOC), the successor to the Maryland All-Payer Model Contract, hospital population-based revenues (commonly referred to as global budgets) are regulated by HSCRC. TCOC is designed to (1) improve population health; (2) improve care outcomes for individuals; and (3) control growth in the total cost of care for Medicare beneficiaries.

State Oversight of Nonprofit Organizations

The Secretary of State (SOS) registers and oversees charitable organizations in the State and maintains an online database of registered entities. A charitable organization is a person that:

- is or holds itself out to be a benevolent, educational, eleemosynary, humane, patriotic, philanthropic, or religious organization; and
- either (1) solicits or receives charitable contributions from the public, or (2) is an ambulance, firefighting, fraternal, rescue, or police or other law enforcement organization when it solicits charitable contributions from the public.

A charitable organization must register and receive a registration letter from SOS before it (1) solicits charitable contributions in the State; (2) has charitable contributions solicited on its behalf in the State; or (3) solicits charitable contributions outside the State if the organization is in the State. A registered charitable organization must submit an annual report to SOS, as specified.

Federal Oversight of Nonprofit Organizations

To qualify as a nonprofit under federal law, a hospital must meet general requirements for tax-exempt status under § 501(c)(3) of the Internal Revenue Code, as well as completing a specified CHNA, adopting specified financial assistance and emergency medical care policies, and meeting other requirements regarding limitations on charges and billing and collections. [Charitable hospitals](#) must meet both an organizational test and an operational test to qualify for exemption.

The Internal Revenue Service uses the community benefit standard test to determine if a hospital is organized and operated for the charitable purpose of promoting health. To qualify as a nonprofit, a hospital must (1) demonstrate that it provides benefits to a class of people that is broad enough to benefit the community, and (2) operate to serve a public rather than a private interest. The following factors can demonstrate a community benefit: an emergency room open to all (regardless of the ability to pay), maintaining a board of directors drawn from the community, maintaining an open medical staff policy, and providing hospital care through public programs like Medicaid and Medicare.

State Fiscal Effect: Under the bill, specified nonprofit hospitals must annually provide community benefits that (1) equal at least 100% of the value of the hospital's tax-exempt benefits or (2) equal at least 5% of the value of the hospital's net patient revenue, if the value of all charity care provided equals at least 4% of the value of the hospital's net patient revenue.

Health Services Cost Review Commission

The bill requires HSCRC to (1) collect statements from nonprofit hospitals detailing how community benefits have been provided; (2) submit a report to the Attorney General and the Comptroller by December 1 each year (beginning in 2028) identifying each nonprofit hospital, if any, that failed to provide the community benefits as required in the immediately preceding fiscal year; (3) adopt specified regulations; and (4) impose civil monetary penalties on a nonprofit hospital that has failed to submit the annual community benefits report.

Expenditures: HSCRC advises that consultant services are required to develop a methodology for quantifying each nonprofit hospital's tax-exempt benefits, revising current hospital reporting processes, and analyzing community benefit data. Although the bill does not require HSCRC to submit the first required report to the Attorney General and the Comptroller until December 1, 2028, this analysis assumes that HSCRC will begin collecting community benefits statements from nonprofit hospitals following the bill's October 1, 2026 effective date. Therefore, HSCRC special fund expenditures increase by \$325,000 in fiscal 2027 (and \$10,000 annually thereafter) for consultant services.

Revenues: The bill requires HSCRC to impose a civil monetary penalty on a nonprofit hospital that has failed to submit the annual community benefits report following written notice. The civil monetary penalties for each day the hospital fails to submit the report vary are as follows: (1) for a hospital with a bed count of 30 or fewer, \$600; (2) for a hospital with a bed count of at least 31 but not more than 549, \$20 per bed; and (3) for a hospital with a bed count of 550 or more, \$11,000.

According to the most recent Maryland Hospital Community Benefit Report, all 49 nonprofit Maryland hospitals submitted their required fiscal 2024 community benefit reports. Therefore, this analysis assumes that HSCRC is not likely to collect civil monetary penalties under the bill. However, to the extent that HSCRC *does* impose a civil penalty for noncompliance with annual community benefits report requirements, special fund expenditures increase accordingly during the fiscal year in which the penalty is imposed.

Comptroller

The bill requires the Comptroller to revoke the tax-exempt status of a nonprofit hospital for the immediately following taxable year upon finding that the nonprofit hospital has not complied with the bill’s requirements for providing community benefits. The Comptroller must reinstate the tax-exempt status of a nonprofit hospital that cures a finding of noncompliance.

The Comptroller advises that it does not have the expertise to independently verify findings related to tax-exempt status and has no experience auditing or reviewing associated health care records. Furthermore, the Comptroller typically relies on SOS or the Office of the Attorney General to determine when specified tax exemptions should be revoked. Therefore, additional staff are needed to meet the bill’s requirements. This analysis assumes that additional staff are not required until after HSCRC’s December 1, 2028 deadline to report specified information to the Comptroller.

Therefore, general fund expenditures increase by \$79,000 in fiscal 2029. This estimate reflects the cost of hiring one auditor and one contractual attorney to establish and maintain a process for verifying a nonprofit hospital’s compliance with the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. This analysis assumes that the contractual position terminates on June 1, 2029.

Permanent Position	1.0
Contractual Position	1.0
Salaries and Fringe Benefits	\$61,825
Other Operating Expenses	<u>17,175</u>
Total FY 2029 State Expenditures	\$79,000

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and ACA.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 832 (Senator Hershey) - Finance.

Information Source(s): Office of the Attorney General; Comptroller's Office; Maryland Department of Health; Department of Legislative Services

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