National Community Benefit Policy Review

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Background Information: Keith Hearle

- Experience at KPMG, The Lewin Group, and San Francisco Department of Public Health
- Lead architect of CHA's community benefit accounting framework, (*Social Accountability Budget*, 1989)
- Lead author of accounting chapter in CHA's *Guide to Planning and Reporting Community Benefit* (2006, 2008, 2012, 2015)
- Contributor to "what counts as community benefit" guidelines; serve on What Counts Task Force
- Drafted sections of IRS Form 990, Schedule H instructions; contributed to subsequent updates
- Specialize in all 501(r)-related topics: policy and practice
- Broad practice in strategic and financial planning
- Board President of FQHC in Alexandria, Virginia

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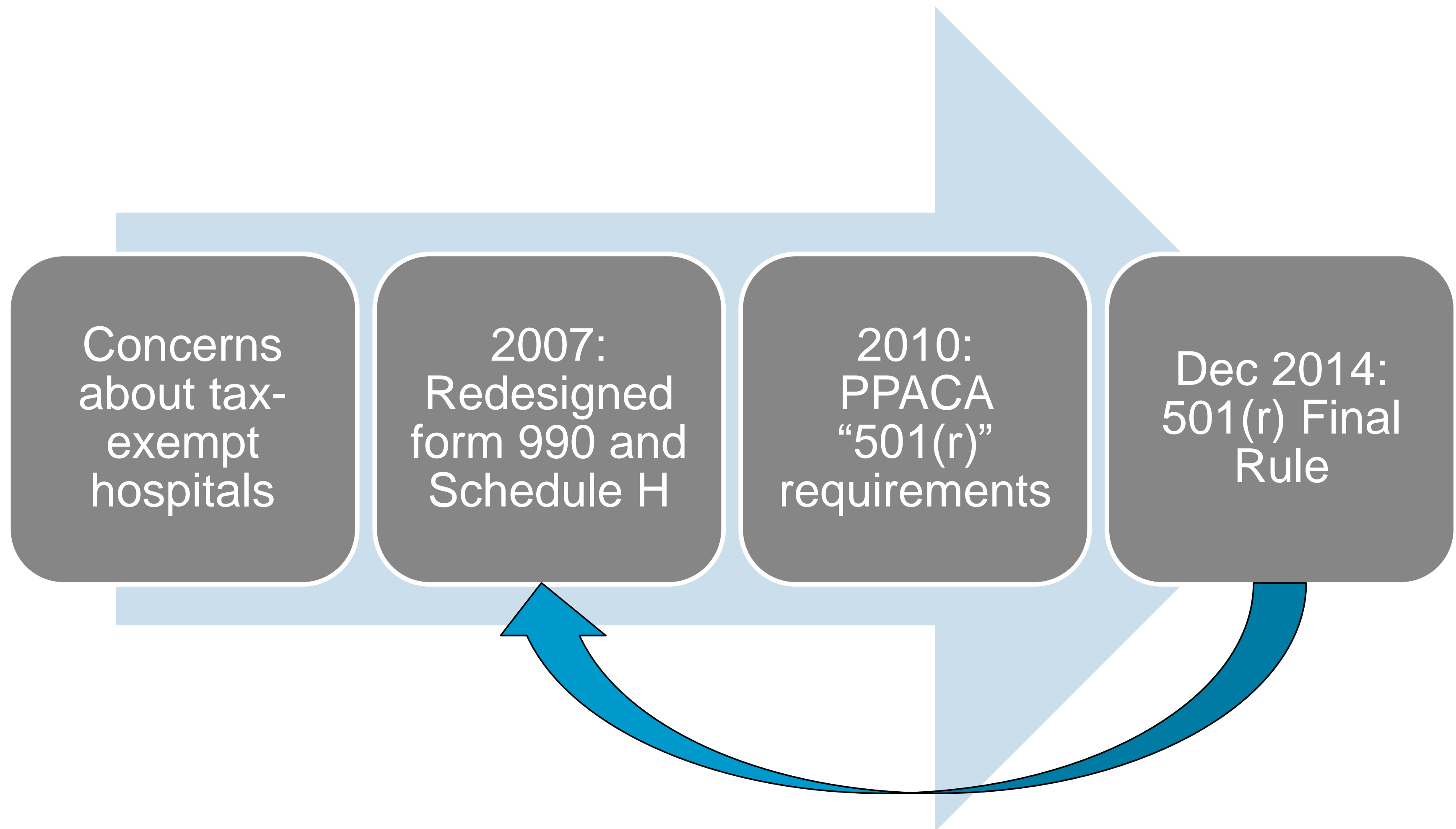
Federal Policy: Brief History and Context



Current Federal Tax-Exemption Framework

- 1956 and 1969 Revenue rulings
- IRS Form 990, Schedule H
- PPACA (2010) and Final Regulations
  - Added 501(r) to the Internal Revenue Code:
    - Community Health Needs Assessment
    - Implementation Strategy (to address significant needs needs)
    - Charity care (financial assistance) policy requirements
    - Policy prohibiting discrimination in emergency care
    - Billing and collections requirements
  - The requirements apply to each 501(c)(3) “hospital facility”
- IRS is actively reviewing 501(r) compliance

Community Benefit Reporting: Schedule H, Part I, Line 7

7 Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1)						
b Medicaid (from Worksheet 3, column a)						
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d **Total** Financial Assistance and Means-Tested Government Programs						
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4) . .						
f Health professions education (from Worksheet 5)						
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7) .						
i Cash and in-kind contributions for community benefit (from Worksheet 8)						
j **Total.** Other Benefits						
k **Total.** Add lines 7d and 7j . .						

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IRS: What Counts as Community Benefit?

- To count, a program or activity must respond to a demonstrated health/related community need and seek to achieve at least one community benefit objective:
  - Improve Access to Health Services
  - Enhance Public Health
  - Advance Generalizable Knowledge
  - Relief of a Government Burden <u>to Improve Health</u>

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IRS: Demonstrating Community Need

- Community need may be demonstrated through:
  - A community health needs assessment (CHNA), or
  - Documentation that a request from a public agency or community group was the basis for initiating or continuing the activity or program, or
  - The involvement of unrelated, collaborative tax-exempt or government organizations as partners

IRS: Programs that should not be counted

- Activities or programs may not be reported:
  - if they are provided primarily for marketing purposes
  - if the program is more beneficial to the organization than to the community; for instance,
    - if the activity or program is designed primarily to increase referrals of patients with third-party coverage,
    - required for licensure or accreditation, or
    - restricted to individuals affiliated with the organization.

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Not IRS: Programs that should not be counted

- An objective, “prudent layperson” would question whether the program truly benefits the community
- The program represents a community benefit that does not involve a reportable expense by the organization, e.g.
  - Benefits provided by employees on their own time
  - Benefits provided by other entities (expense is not on the EIN’s Form 990, Part IX)

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Key Community Benefit Accounting Principles

- Only report expense actually incurred (borne) by the hospital organization (and also on Core Form) – including joint venture proportionate shares
- Report actual (auditable) expense and not "opportunity costs"
- Include indirect (overhead) costs for every category
- Use "most accurate" cost accounting methods
- Avoid double-counting community benefit expense

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Key Community Benefit Accounting Principles

- If in doubt, follow generally accepted accounting principles (GAAP)
- Apply the "matching principle"
- Monitor and assure compliance with any instructions changes
- Maintain an audit trail
- Disclose accounting methods (e.g., in footnotes to community benefit reports and in Part VI of Schedule H)

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Issue Areas: Community Benefit Reporting on Schedule H

- Bad debt
- Medicare
- Cost accounting methods
- Medicaid expenses
- Grant revenue received
- Community Building/Social Determinants
- Medicaid eligibility work

- Research
- Health professions education
- Physician clinics
- Restrictions on contributions made
- PILOTs
- “Bright line” test
- 501(r) compliance

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Issue Areas: Community Health Needs Assessments and Implementation Strategies

- Defining “community”
- Assuring input from public health officials and other key stakeholders
- Allowing / encouraging collaboration while not diluting local focus
- How needs are determined to be “significant” and how strategies are selected
- Evaluating impacts

Issue Areas: Financial Assistance and Billing and Collections Policies

- How to "widely publicize":
  - Financial Assistance Policy (FAP), Plain Language Summary, Application (multiple languages)
  - Which affiliated providers are covered by the FAP
- Minimum discounts to be offered
- Time to apply, submit documentation, address errors or omissions
- Transparency regarding consequences of non-payment
- Reasonable efforts before "extraordinary collections actions"

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Summary

- 1956 and 1969 Revenue rulings
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