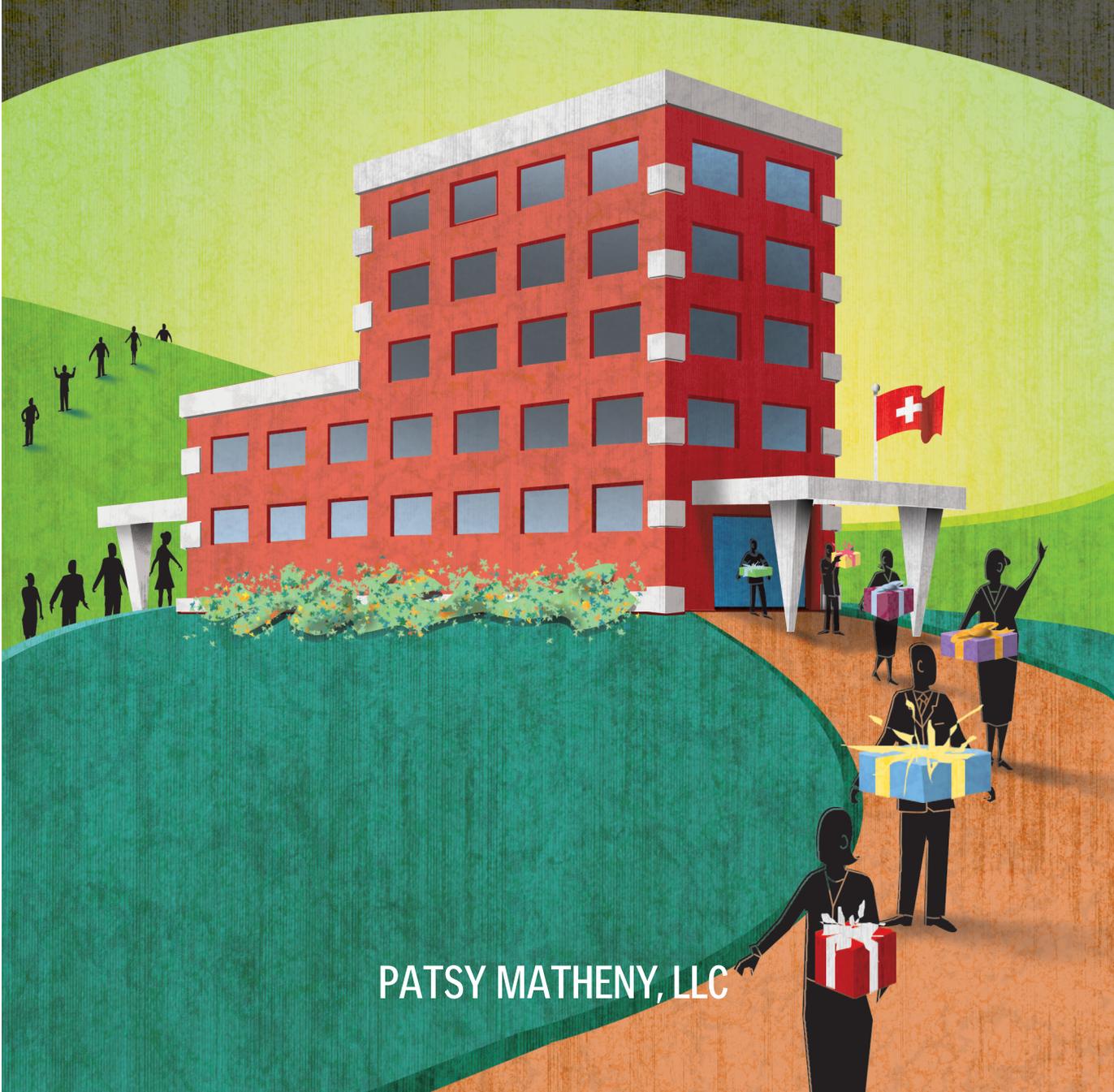


# A MARKETER'S GUIDE TO COMMUNITY BENEFIT REPORTING AND IRS FORM 990H



PATSY MATHENY, LLC

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PATSY MATHENY, LLC

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A Division of HCPro

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Thanks to Gienna Shaw, Amy Anthony, and HealthLeaders Media for providing the opportunity to put my thoughts into words. Trying to explain my line of work to family and friends is usually an interesting conversation. Community benefit is not an easily understood concept, so the conversation often ends up with them

## Acknowledgments

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just smiling and nodding their heads. Guess what everyone is getting as a holiday present this year?

And lastly, thanks to my husband, Dan, who has faithfully taken the time to understand and support me in my work, which so often takes me away from home. You are my best friend and anchor.

# About the Author

## Patsy Matheny, LLC

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Patsy Matheny, LLC, is a well-known expert on community benefit, speaking to groups such as the Healthcare Financial Management Association (HFMA), conducting community benefit workshops for state hospital associations, and working closely with the national organizations leading the charge for standardized processes and reporting—including on the new IRS form 990 Schedule H. She was a contributing author for *A Guide for Planning and Reporting Community*

*Benefit*, released by The Catholic Health Association of the United States (CHA) and VHA, Inc. She serves on the CHA community benefit steering committee, staffs the national “What Counts” hotline, and serves as lead faculty for the CHA Community Benefit workshops.

Patsy works with hospitals and health systems to develop strategic and sustainable organizationwide community benefit programs—including collecting and reporting comprehensive community benefit data. Her primary focus is on ensuring creditable community benefit reporting in line with federal and state guidelines, including the grey areas of “what counts,” and strategically aligning community benefit within organizations.

While working for VHA, Inc., Patsy coordinated four national community benefit conferences sponsored by VHA and CHA. She developed and implemented a national diabetes program called Target: Diabetes®, in which 16 hospitals piloted inpatient and outpatient protocols and processes to prepare for upcoming Joint Commission measures. Continuing her tie with VHA, Inc., and its regional offices, Patsy provides workshops and individual hospital support and is the resource expert for VHA members using the Lyon CBISA Online Software.

Based in central Ohio, she has served as vice chair of the Ohio Hospital Association's Foundation for Healthy Communities Board, which funds innovative projects that improve community health status. Patsy was also vice chair of the Hospital Commission of Franklin County (Columbus), Ohio, a board that reviews and recommends tax-exempt bond issuance for healthcare organizations. Appointed by the county commissioners, her role on this commission was to ensure that community benefit was discussed in the requesting hospital's petition for tax-exempt bonds.

Patsy holds master degrees in Public Policy and Management and in Social Work from The Ohio State University.

# Telling Your Community Benefit Story

Hospitals must tell their community benefit story to everyone, everywhere, every day. In the past, hospitals were hesitant to toot their horns by showcasing their community benefit activities. They worried it would be counterproductive: Wouldn't it sound like bragging and turn public perception against them?

Some hospitals think—erroneously—that everyone already knows what they're doing to improve the health of their communities. Surely, they say, people are aware of our free clinic and our health education programs.

Actually, most people won't know what you are doing in community benefit unless you purposefully and continually tell them.

In today's healthcare environment, delivering the community benefit message is more important than ever. Congress, the IRS, state attorneys general, and local officials want to know how hospitals are fulfilling community benefit expectations. Just as important is the quest to gain public trust, as community residents question whether the hospital is truly serving the needs of the community.

## **The Purpose of Community Benefit Communications**

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Community benefit is a complex subject that is not understood by most healthcare professionals. This lack of understanding can confuse the issue and muddle the message. Community benefit is not something that's nice to do. It is a must-have to fulfill community expectations and regulatory requirements.

A primary purpose of community benefit communications is to provide education about community benefit: what is it and why is it important to the community and to the hospital. It's helpful in the beginning to clear up two misconceptions. One, community benefit is not marketing. Hopefully community benefit activities will yield a positive perception and image of your organization. But the reason for these programs is to meet the needs of the community; not to bring market share into the hospital.

Community benefit activities provide treatment or promote health as a response to community needs and meets at least one community benefit objective:

- Improve access to health services
- Enhance public health
- Advance knowledge
- Relieve government burden

Secondly, community benefit is more than charity care. Community benefit includes charity care and other means-tested program shortfalls but also refers to

a wide range of activities needed to improve or sustain good health for community residents. Helping train future healthcare professionals is a community benefit. Conducting research, maintaining negative margin inpatient service lines to prevent gaps in service, and cash donations to community organizations are other community benefit categories.

Investing in community benefit activities serves many purposes in addition to preserving tax exemption. Mission-driven hospitals operationalize their values and vision through community benefit activities. Activities can positively impact clinical quality and the hospital's business strategy, such as reducing hospitalization for ambulatory sensitive conditions.

Community benefit is also an important part of the discussion about healthcare reform. Activities can help reduce healthcare costs by addressing chronic care and provide the primary and secondary prevention to keep people healthy and out of the "sick care" system.

Historically, attention to community benefit has been a roller coaster ride. Interest peaked when a hospital came under scrutiny and faced the threat of tax exemption revocation. But once the threat passed, attention lagged. Now with 990H and the public clamoring for accountability and transparency, the need to tell the community benefit story is greater than ever before. Community benefit is here to stay.

## **The Marketer's Role in Community Benefit Reporting**

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The responsibility rests with hospital and health system marketers to put all the pieces of community benefit together to create a consistent, ongoing message that demonstrates the organization's commitment to improving the community's health status. This means creating and using a community benefit communication plan that tailors messages to multiple audiences on an ongoing schedule. It's just not enough to produce a report once per year or hope that the numbers you reported to IRS Form 990 Schedule H (990H) or to a state organization will satisfy those who will scrutinize your charitable behavior.

In fact, numbers only tell part of the story, and numbers alone do not resonate with the community, your employees, and the press. People want to know the story behind the numbers. Is the hospital being a good steward in spending community benefit dollars? Are the dollars resulting in better health for the community and its residents? Who has been helped? People want to know, "What have you done for me lately?"

Communicating community benefit must be part of the hospital's overall communication plan and weaved into internal and external communication tactics and strategies.

### ***Two fundamental tasks***

The new 990H is a public document that provides an opportunity for telling your community benefit story. The 990H form asks for numbers and narrative explanations; this necessitates a well-crafted response.

Preparing the document demands a team approach in which the marketer plays a critical role. It is not the marketer's job to complete the actual tax form (and if a marketer is asked to do so, he or she is wearing too many hats at the organization). However, there are two fundamental tasks for the marketer regarding 990H. First, you should write the responses to many of the open-ended questions in the last section of the form. Second, you should prepare yourself, your department, and others in the organization to respond to media and other inquiries about the information submitted on 990H.

## **What You'll Learn in This Book**

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This book is designed to give marketers an understanding of community benefit so that they can tell their story to everyone, everywhere, every day—and not just on 990H.

If you're new to community benefit reporting, you should read the book in sequential order to first gain an understanding of community benefit as a working concept. The last thing you want is for your community benefit message to sound like a marketing message.

The first chapters highlight why community benefit is in today's spotlight, what it is and isn't, and which activities count as a community benefit.

The book then provides suggestions to address the challenge of collecting the numbers and the stories that will be used on 990H and your other communication vehicles.

For those of you most interested in completing the 990H form, the book's final chapters describe the information requested, give recommendations on how the marketer could answer the open-ended questions, and outline questions the media and others may ask of your organization after reading your completed 990H.

Finally, you'll learn about messaging, tactics, and strategies for telling your community benefit story to internal and external audiences with a case study on one hospital's community benefit reporting journey.

Throughout the book, you'll notice references to another helpful resource: *Guide for Planning and Reporting Community Benefit*, released in 2006 and updated in 2008 by the Catholic Health Association and VHA, Inc. It's accepted as the industry standard in how to do community benefit correctly. Together, the guide and this book, which I hope you'll find practical and valuable, will provide you with the tools you'll need to develop an organizationwide community benefit strategy, better understand the community benefit categories, and effectively communicate the important contributions that your organization makes to your community.

**Author's note:** *This book content represents my opinions, recommendations, and sourced facts, but it does not represent legal or tax advice. Please consult your finance staff, tax experts, and legal counsel on 990H reporting.*

# WHO'S LOOKING AT COMMUNITY BENEFIT?



## CHAPTER 1



# Who's Looking at Community Benefit?

The discussion about whether and how hospitals benefit their communities is not a new debate. Hospitals and their communities have always had a symbiotic relationship. Ideally, they exist together in a mutually beneficial and mutually dependent relationship. Indeed, the relationship is an emotional one requiring continual attention to trust.

The fundamental nature of this trust, which goes beyond compliance with legal and regulatory struggles, is coupled with enormous expectations from hospitals as mission- and value-driven organizations. Central to most communities and the healthcare system, the hospital is expected to act in the best interest of the consumer and the community and collaborate for the common good.

Community benefit is far more than numbers, total expenses, and how many people your hospital serves. The real question is whether you positively affect identified community needs and improve the health status of your community.

## A Matter of Trust

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Consumers expect the hospital to provide care when they are sick, improve quality of life in the face of disability, and also keep them healthy in the first place. Community groups and leaders look to the hospital as one of the community's economic engines functioning as a major employer and purchaser of goods and service, which often gives the impression of "big business." The community comes to the hospital with an open hand, asking for funds to provide a multitude of services that may or may not be community benefit.

Government and public policy leaders expect hospitals to meet federal, state, and local regulatory and statutory requirements. A lack of trust that hospitals are doing so has led to increased scrutiny—especially of nonprofit hospitals—by Congress, the IRS, state attorneys general, and local officials. The new IRS Form 990 Schedule H (990H) is a tool for all of these groups to learn what hospitals are doing in community benefits to either validate or resolve their mistrust.

Consumers, the community, and government leaders want more and better accountability and transparency. Are you behaving in accordance with your governance structure? Are you using your mission and vision to guide actions and meet these expectations as cornerstones of community trust? Are you truly making an impact and meeting the needs of the community? Ideally, you can answer a resounding "yes" to these questions and demonstrate this accountability by telling your community benefit story and how your hospital is improving your community's health for everyone, everywhere, every day.

## **Not Just an IRS Mandate**

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Professional groups, demonstration projects, and quality improvement initiatives have long had principles and standards that crystallize expectations for hospitals to be responsive to community needs. It is not an emerging issue in response to public policy scrutiny or to the new IRS reporting requirement.

What is emerging is the imperative for hospitals to ethically use their mission and values in strategically responding to community needs and be transparent in these actions. Values and ethics provide the pedestal on which actions are taken and establish the essence of the organization's culture. For many years, professional groups and initiatives have advocated that hospitals include accountability to the community and society as part of its culture.

### ***American Hospital Association***

On its Web site, the American Hospital Association (AHA) describes itself as “the national organization that represents and serves all types of hospitals, healthcare networks, and their patients and communities.” For the past 15 years, AHA has further emphasized the focus on community as a hospital responsibility through its mission and vision statements:

The AHA vision is of a society of healthy communities, where all individuals reach their highest potential for health. The organization's mission is to advance the health of individuals and communities. The AHA leads, represents, and serves hospitals, health systems, and other related organizations that are accountable to the community and committed to health improvement.

### ***American College of Healthcare Executives***

The American College of Healthcare Executives (ACHE) is a professional society of healthcare leaders known for its credentialing and educational programs. As part of professional development, ACHE developed a code of ethics with standards of ethical behavior for healthcare executives in their professional relationships. As noted in its code of ethics, these relationships include colleagues, patients, members of organizations, the community, and society as a whole. The code also defines how to translate into action the responsibility to the community.

According to the code, healthcare executives should:

- Work to identify and meet the healthcare needs of the community
- Work to support access to healthcare services for all people
- Encourage and participate in public dialogue on healthcare policy issues and advocate solutions that will improve health status and promote quality healthcare
- Apply short- and long-term assessments to management decisions affecting both community and society
- Provide prospective patients and others with adequate and accurate information, enabling them to make enlightened decisions regarding services

### ***American Medical Association***

The mission of the American Medical Association (AMA), a national professional group for physicians, is to “promote the art and science of medicine and the

betterment of public health.” Public health issues addressed by the AMA include geriatric and adolescent health, violence prevention, health disparities, and obesity, with an emphasis on promoting healthy lifestyles, eliminating health disparities, and integrating disease prevention and health promotion into routine clinical care. All of these issues can be addressed through evidence-based community benefit activities.

The AMA has a professional ethics code with nine standards of conduct that, according to the AMA, “define the essentials of honorable behavior” for the physician. As revised in June 2001, the focus on community is clearly defined in the seventh standard: “A physician shall recognize a responsibility to participate in activities contributing to the improvement of the community and the betterment of public health.”

### ***Hospital Community Benefit Standards Program***

The Hospital Community Benefit Standards Program (HCBS), a demonstration project funded by the W.K. Kellogg Foundation during 1989–1993 at New York University, established four standards relating to a hospital’s community benefit activities. These standards built on the precepts set forth by the professional groups discussed above. The demonstration hospitals successfully implemented the standards that now serve as a catalyzing framework for pulling isolated activities into an organizational strategy.

The HCBSP standards are:

- There is evidence of the hospital's formal commitment to a community benefit program for a designated community
- The scope of the program includes hospital-sponsored projects for the designated community in improving health status; addressing the health problem of minorities, the poor, and other medically underserved populations; and containing the growth of healthcare costs
- The hospital's program includes activities designed to stimulate other organizations and individuals to join in carrying out a broad health agenda in the designated community
- The hospital fosters an internal environment that encourages hospitalwide involvement in the program

### ***Malcolm Baldrige National Quality Award***

Another well-known initiative attributing a focus on the community as a key for success is the Malcolm Baldrige National Quality Award. Enacted through the Malcolm Baldrige National Quality Improvement Act of 1987, the award program is implemented through the National Institute of Standards and Technology, an agency of the U.S. Department of Commerce. It promotes quality improvement through proven management systems.

The president of the United States presents the award to world-class performing organizations that are judged outstanding in seven categories: leadership; strategic

planning; customer and market focus; measurement, analysis, and knowledge management; work force focus; process management; and results. The 2009–2010 Health Care Criteria for Performance Excellence specifically focus on serving the community in the leadership and results categories.

For example, the leadership category addresses governance and societal responsibilities, such as support of key communities and community health. It asks the following questions:

- How do you consider societal well-being and benefit as part of your strategy and daily operations?
- How do you consider the well-being of environmental, social, and economic systems to which your organization does or may contribute?
- What are your key communities and how does your organization actively support and strengthen them?
- How do you identify these communities and determine areas for organizational involvement, including areas related to your core competencies?
- How do your senior leaders, in concert with your work force, contribute to improving these communities and to building community health?

The results section asks organizations about results for key measures or indicators of the organization's fulfillment of its societal responsibilities, support of its key communities, and contribution to community health.

### ***Magnet Status***

The American Nurses Credentialing Center, an affiliate of the American Nurses Association, grants Magnet status to hospitals that satisfy a set of criteria designed to measure the strength and quality of their nursing. One of the criteria considers the healthcare organization's partnerships and involvement with the community.

## **More Than Charity Care**

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Over the years, the predominant way that hospitals showed they were being responsive to community needs has been through the provision of free and discounted care. Community benefit has been tied to charity care since the early 1800s, when hospitals, using philanthropic donations, accepted undesirables off the street and served the poor while paying patients were treated at home by physicians. In the early part of the 20th century, improved technology made the hospital acceptable as a source of care to paying and nonpaying patients.

Regulatory actions during the 20th century further coupled charity care and community benefit as being synonymous. This historical perspective lingers today, even though the 1969 IRS ruling minimized the requirement for charity care and broadened the purpose of a "charitable" (tax-exempt) organization to the promotion of health realized through a wide breadth of activities.

### ***Hill-Burton funds and Revenue Ruling 56-185***

Provision of charity care was a stipulation in the 1946 Federal Hospital Survey and Construction Act, better known as the Hill-Burton Act, which provided federal grants and guaranteed loans to hospitals. In exchange for funds, hospitals

were required to provide, for 20 years, a “reasonable volume” of free care. Hill-Burton was amended to require hospitals to provide free care in perpetuity, but that rule was later suspended.

Since the federal income tax statutes were established, nonprofit hospitals have been exempt from taxation as “charitable” organizations. In 1956, the IRS ruled that the term “charitable,” in its legal sense, means an implied public trust for some public benefit.

The ruling also required nonprofit, tax-exempt hospitals to provide charity care (within the extent of their financial ability) for those unable to pay.

## **Federal Community Benefit Expectations**

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The IRS minimized the regulatory connection between charity care and tax exemption in 1969. Many thought that charity care would no longer be needed because Medicare and Medicaid would significantly reduce or eliminate the need for charity care. That caused some to question whether nonprofit hospitals that would no longer provide charity care should still be entitled to tax exemption.

In response to this, the IRS issued Revenue Ruling 69-545, what has come to be known as the community benefit standard. In order to be tax exempt, the IRS ruled, nonprofit hospitals must promote the health of the community. According to the ruling, “the promotion of health, like the relief of poverty and the advancement of education and religion, is one of the purposes in the general law of charity that is deemed beneficial to the community as a whole, even though the class of

beneficiaries eligible to receive a direct benefit from its activities does not include all members of the community, such as indigent members of the community, provided that the class is not so small that its relief is not of benefit to the community.”

In other words, a community benefit activity must promote the health of the broad community.

The ruling also established that to be tax exempt, a hospital must meet the following additional requirements:

- Hospitals must have a governing body composed of independent members of the community
- Medical staff privileges must be available to all qualified physicians in the area
- Hospitals must have a full-time emergency room open to all patients regardless of ability to pay (although a later ruling eliminated this provision if it would unnecessarily duplicate other emergency services or in the case of specialized hospitals that treat conditions unlikely to require emergency treatment)
- Hospitals must admit patients able to pay for care, including Medicare and Medicaid patients
- Hospitals must use surplus funds to improve the quality of patient care, expand facilities, and advance medical training, education, and research programs

## State and Local Community Benefit Expectations

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In addition to the IRS and Congress, state and local government officials and state hospital associations have focused on charity care and community benefit issues. Usually, states confer state and local tax exemption to hospitals designated as tax-exempt organizations by the IRS, but they may impose additional requirements.

Since the 1990s, most states have enacted either mandated or voluntary community benefit reporting. States with mandated laws have applied varying definitions of what counts as a community benefit, which has contributed to the confusion in the field. Some states require hospitals to report only charity care, others identify certain categories or services, and still others use definitions now included on 990H. State laws may also include requirements pertaining to community needs assessments and community benefit planning and reporting.

States with voluntary community benefit reporting tend to be newer in the game and have reporting requirements more in line with 990H categories. These initiatives are most often sponsored through the state hospital association and include all hospitals in the state—nonprofit, public, and for profit. Aggregate data are used for state and national advocacy.

Even though the IRS minimized charity care as a requirement for tax exemption, county property tax assessors and state attorneys general's actions to revoke tax exemption have been predicated on the accusation that the hospital is not providing enough charity care.

The takeaway for marketers is to familiarize yourself with your state's reporting requirements in addition to the federal reporting requirements on 990H. Pay particular attention to the connection between community benefit and charity care ascribed by your state and local officials. A community benefit communication plan should clearly include messages about how the hospital is serving the indigent and the uninsured and underinsured.

### **Why the Scrutiny?**

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There are three key reasons that hospitals' community benefits are being scrutinized. The first is a distrust that hospitals, as charitable organizations, are acting in the public good. In discussions about whether hospitals are operating in the public good or for their own benefit, community benefit expectations have been allied with questions on the rationale for charges, billing and collection policies, charity care policies, bad-debt policies, executive compensation, and joint ventures.

The second reason is continued inconsistencies in how hospitals define and account for community benefit. Getting a handle on exactly what hospitals are doing in community benefit is difficult, although the IRS and the General Accounting Office, the research arm for Congress, have studied this question. These final reports have agreed that with varying definitions and standards, it is impossible to make comparisons between hospitals.

The third reason for scrutiny is the question of how much community benefit is enough. A Senate Finance Committee white paper suggested that nonprofit hospitals should deliver a minimum of 5% of patient operating revenues or expenses

(whichever is greater) to charity care. The need for a “bright line” test has been raised by Congressional leaders. However, the IRS’s 2009 report noted that “significant differences were observed between the critical-access hospitals and the high-population hospitals, and between the smallest and largest hospitals based on revenue size.”

This supports the premise that community benefit is a local issue. It is more important to look at how a hospital is identifying and addressing local community needs than it is to apply one standard across the country. A hospital in a community with many uninsured and underinsured residents may have higher charity care expenditures and fewer expenditures in other community benefit categories. Hospitals in more affluent communities may see less need for charity care and, instead, direct their community benefit dollars to other community benefit activities.



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