

H2

Office of the President

TO MEMBERS OF THE HEALTH SERVICES COMMITTEE:

DISCUSSION ITEM

For Meeting of April 15, 2020

COMMUNITY BENEFIT AND IMPACT, UC HEALTH

EXECUTIVE SUMMARY

Tim Maurice, Chief Financial Officer, UC Davis Health, will present the results of the recently completed report on the Community Benefits provided by the University of California Medical Centers for the fiscal year 2018-19.

Community benefits are programs or activities that provide treatment or promote health and healing as a response to identified community needs and meet at least one of these objectives:

- Improve access to health care services.
- Enhance public health.
- Advance increased generalizable knowledge.
- Relieve or reduce the burden of government to improve health.

Every three years, each of the UC health systems collaborates with other local health systems to complete a Community Health Needs Assessment (CHNA) to identify and prioritize the significant health needs of people living in the communities they serve. At the Health Services Committee meeting on October 10, 2019, former Executive Vice President Stobo provided the CHNA for each of the UC health systems and their proposed implementation strategies to address the significant health needs identified in the CHNAs. Beginning in 2020, UC Health will provide, in addition to the CHNA, an annual update on the community benefits provided by each UC health system that align with the principles and needs identified in the CHNAs. The Community Benefits Report scheduled for presentation at the April 15, 2020 Health Services Committee meeting will present data for fiscal year 2018-19 and represents UC Health's first such update.

The Community Benefits Report presents data gathered by the hospitals operated by UC Davis Health, UCI Health, UCLA Health, UC San Diego Health, and UCSF Health (including the private non-profit Children's Hospital and Research Center at Oakland) and supplements the materials included in the audited financial report for the UC Medical Centers for fiscal year 2018-19 that was approved by the Regents in November 2019. The University of California also operates 19 health professional schools which provide many substantive benefits to communities

April 15, 2020

throughout the state and beyond, and, in the future, UC Health plans to include data regarding the community benefits provided through the health professional schools in the annual Community Benefits Report.

The information in this report concerns the activities and programs accounted for within the UC Medical Centers *only*. Although, as governmental hospital organizations, the UC Medical Centers are not required to submit information related to their community benefits annually to the Internal Revenue Service via Form 990, Schedule H,¹ this report has been prepared in accordance with instructions published by the Internal Revenue Service for that schedule. All non-governmental, tax-exempt hospital organizations described by Section 501(c)(3) of the Internal Revenue Code must file IRS Form 990, Schedule H, which includes information on community benefits they provide based on its instructions as well as nationally recognized guidelines. The UC Medical Centers decided to prepare reports pursuant to the Form 990 Schedule H instructions and guidelines in order to provide transparent, standardized information about the significant community benefits they are providing and to facilitate comparing these investments to benchmarks for other tax-exempt, non-profit academic medical centers.

BACKGROUND

UC Health and each of the UC health systems is proud to be actively involved in advancing health and health care throughout the State of California and beyond. Every year, the UC health systems partner with or sponsor hundreds of community events and programs, investing resources in the community in alignment with UC Health's tripartite mission of patient care, research and education. These community benefit activities align with the principles and significant health needs identified in the CHNA that each UC health system completes at least once every three years and with the UC Health system's implementation strategy to address those needs.

UC health systems, like other tax-exempt non-profit health systems across the nation, provide community benefits for a variety of strategic reasons, including:

- Demonstrating their ongoing commitment to UC Health's tripartite mission;
- Providing vital support to improve population health and achieve strategic objectives related to the quality, efficiency, and affordability of health care;
- Highlighting the significant resources devoted to providing access to care for low-income and other underserved patient populations; and
- Helping to advance knowledge through health professions education and research that benefits the public.

¹ Instructions for Form 990 Return of Organization Exempt from Income Tax (2019), <https://www.irs.gov/instructions/i990#d0e745> (last visited Mar. 22, 2020). State institutions whose income is excluded from taxation pursuant to Section 115 of the Internal Revenue Code are not required to file a Form 990. Children's Hospital and Research Center at Oakland, known as UCSF Benioff Children's Hospital Oakland, is a private tax-exempt hospital organization described in Section 501(c)(3) of the Internal Revenue Code and must file a Form 990 and Schedule H each year.

April 15, 2020

Tax-exempt health systems and hospitals also recognize that being exempt from federal and State income tax, and other State and local income taxes as applicable, as well as their ability to receive tax-deductible charitable donations and issue tax-exempt debt, represent significant and invaluable benefits that are needed to support their missions.

Since 2009, non-governmental, charitable hospital organizations that are exempt from federal income tax pursuant to section 501(c)(3) of the Internal Revenue Code have filed information related to their community benefit activities using IRS Form 990 Schedule H.² Although, as governmental hospital organizations, the UC Medical Centers are not required to file IRS Form 990 and Schedule H,³ this report has been prepared in accordance with instructions that apply to that schedule. This report also follows other nationally recognized guidelines that supplement the Schedule H instructions. This report thus supplements materials published in the University of California Medical Centers Annual Financial Report for 2018/2019.⁴

Definition and Description of Community Benefit Activities

On IRS Form 990 Schedule H, the following activities and programs are reported as community benefit:

Category	Definition and Description
Financial Assistance	<p>Free or discounted health services provided to persons who meet the organization's criteria for financial assistance (as specified in a Financial Assistance Policy) and are thereby deemed unable to pay for all or a portion of the services. Financial assistance does not include self-pay discounts, prompt pay discounts, contractual allowances, and bad debt.</p> <p>Financial assistance is reported based on cost – not the amount of gross patient charges forgiven.</p>
Medicaid	<p>The United States health program for individuals and families with low incomes and resources.</p> <p>Medicaid (Medi-Cal) community benefits are reported as the difference between the cost of care and reimbursement. Net community benefits thus are the loss incurred by the UC Medical Centers in providing access to care for Medi-Cal recipients.</p>

² Since 1994, California State law also has required private non-for-profit hospitals to review their mission statements, conduct community needs assessments, and develop and implement community benefit plans and report such information to the California Office of Statewide Health Planning and Development. Cal. Health and Safety Code §§ 127345-60.

³ Instructions for Form 990 Return of Organization Exempt from Income Tax (2019), <https://www.irs.gov/instructions/i990#d0e745> (last visited Mar. 22, 2020). State institutions whose income is excluded from taxation pursuant to Section 115 of the Internal Revenue Code are not required to file a Form 990. Children's Hospital and Research Center at Oakland, known as UCSF Benioff Children's Hospital Oakland, is a private tax-exempt hospital organization described in Section 501(c)(3) of the Internal Revenue Code and must file a Form 990 & Schedule H each year.

⁴ <https://www.ucop.edu/financial-accounting/financial-reports/medical-center-financial-reports.html>.

Category	Definition and Description
Other Means-tested Government Programs	Government sponsored health programs where eligibility for benefits or coverage is determined by income and/or assets (e.g., county indigent care programs).
Community Health Improvement Services	<p>Activities or programs carried out or supported for the express purpose of improving public health that are subsidized by the health care organization.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • Community health education, including classes and education campaigns, support groups and self-help groups; • Community-based clinical services, such as screenings, annual flu vaccine clinics and mobile units; • Health care support services for lower-income persons, such as transportation, case management, Medicaid enrollment assistance, services to help homeless persons upon discharge; and, • Social and environmental activities known to improve health, such as violence prevention, improving access to healthy foods, and removal of asbestos and lead in public housing.
Health Professions Education	<p>Educational programs that result in a degree, certificate, or training that is necessary to be licensed to practice as a health professional, as required by State law; or continuing education that is necessary to retain State license or certification by a board in the individual's health profession specialty.</p> <p>Expenses incurred by the UC Medical Centers in educating interns and residents, medical students, and allied health professionals are reported in this category.</p>
Subsidized Health Services	<p>Clinical services provided despite a financial loss to the organization because they are needed to assure access to care for members of the community.</p> <p>The financial loss is measured net of any financial assistance and Medicaid losses to avoid double counting.</p>
Research	<p>Any study or investigation that receives funding from a tax-exempt or governmental entity of which the goal is to generate generalizable knowledge that is made available to the public.</p> <p>Research (e.g., clinical trials) funded by for-profit entities is not reportable as community benefit on Schedule H.</p>
Cash and In-kind Contributions for Community Benefit	Contributions made by the organization to support community benefits provided by other organizations.

Community benefits are accounted for by quantifying the total expense, the direct offsetting revenue, and the resultant net expense borne by the hospital for the above activities and programs. On Schedule H, those activities and programs are reported as community benefit in Part I. Hospitals also account for community building activities (in Part II), and Medicare and bad debt (in Part III). Medicare and bad debt are not reported as community benefit on Schedule H.

The following table provides the estimated net community benefits provided by the UC Medical Centers in 2018/2019.

**UC Medical Centers Net Community Benefits, Year Ended June 30, 2019
(in thousands of dollars)**

Community Benefits (\$000s)	UC Davis	UC Irvine	UC San Diego	UCLA	UCSF	UC Medical Centers
Net community benefit expenses						
Financial Assistance (charity care)	\$ 3,988	\$ 9,590	\$ 23,127	\$ 5,830	\$ 17,033	\$ 59,568
Medicaid	40,808	109,145	139,873	185,653	444,774	920,254
Other means tested government programs	(181)	382	(14)	-	-	187
Community health improvement services	6,553	56	217	3,071	13,702	23,598
Health professions education	56,898	36,149	43,054	76,364	67,665	280,130
Subsidized health services	-	2,600	1,997	7,369	5,214	17,180
Research	28,622	-	-	8,000	47,875	84,496
Cash and in-kind contributions	6,269	-	178	2,649	-	9,097
Net community benefit expenses	142,957	157,922	208,432	288,936	596,264	1,394,511
Medicare	165,197	106,280	269,293	277,242	596,227	1,414,238
Community benefits with Medicare	308,154	264,202	477,725	566,177	1,192,491	2,808,749
Total operating expenses	\$ 2,411,433	\$ 1,339,874	\$ 2,332,809	\$ 2,942,691	\$ 5,059,118	\$ 14,085,925
Community benefits as % of expenses						
Net community benefit expenses	5.9%	11.8%	8.9%	9.8%	11.8%	9.9%
Medicare	6.9%	7.9%	11.5%	9.4%	11.8%	10.0%
Community benefits with Medicare	12.8%	19.7%	20.5%	19.2%	23.6%	19.9%
Note:						
Total Health System Support	\$ 29,033	\$ 85,051	\$ 218,228	\$ 127,684	\$ 146,232	\$ 606,228
Amounts Reported as Community Benefit	\$ 23,023	\$ 6,749	\$ 450	\$ 8,000	\$ 9,863	\$ 48,085

In total, the UC Medical Centers provided \$1.4 billion in net community benefits.

- Total (gross) community benefit expenses were \$4.2 billion.
- Direct offsetting revenue (e.g., Medi-Cal reimbursement and Medicare reimbursement for direct graduate medical education costs) totaled \$2.8 billion.

On average, the UC Medical Centers' estimated net community benefit expense represents 9.9 percent of the UC Medical Centers' total expenses.

Comparison to Benchmarks

The UC Medical Centers' 9.9 percent average "net community benefit expenses as a percent of total expense" is comparable to benchmark data for academic medical centers. Specifically, UC Health included the following benchmark organizations:

- Cedars-Sinai Medical Center,
- The Johns Hopkins Hospital,
- Stanford Health Care,
- Yale New-Haven Hospital, and
Certain other academic medical centers

**Net Community Benefits for Benchmark Organizations, Tax Years 2016 or 2017
(in thousands of dollars)**

Hospital Organization	Total Operating Expenses (\$000s)	Net Community Benefits Expense (\$000s)	Net Community Benefits % of Expenses	Tax Year
Albany Medical Center Hospital	\$ 1,415,783	\$ 98,600	7.0%	2017
Anne Arundel Medical center	\$ 530,583	\$ 44,913	8.5%	2017
Baystate Medical Center	\$ 1,147,646	\$ 84,990	7.4%	2016
Beth Israel Deaconess Medical Center	\$ 1,663,650	\$ 272,967	16.4%	2016
Billings Clinic	\$ 710,874	\$ 32,294	4.5%	2017
Boston Medical Center	\$ 1,303,298	\$ 238,578	18.3%	2016
Carilion Medical Center	\$ 1,269,959	\$ 106,265	8.4%	2016
Cedars-Sinai Medical Center	\$ 3,184,021	\$ 273,076	8.6%	2016
Childrens Hospital Los Angeles	\$ 1,188,469	\$ 71,502	6.0%	2017
City Of Hope National Medical Ctr	\$ 1,078,401	\$ 126,615	11.7%	2016
Cooper University Hospital	\$ 1,278,328	\$ 148,555	11.6%	2017
Dartmouth Hitchcock Alliance Hospital	\$ 1,152,525	\$ 132,076	11.5%	2016
Eisenhower Medical Center	\$ 811,816	\$ 58,685	7.2%	2017
Huntington Hospital	\$ 698,819	\$ 82,622	11.8%	2017
Lehigh Valley Hospital	\$ 1,636,507	\$ 145,590	8.9%	2017
Loma Linda University Medical Center	\$ 1,204,730	\$ 60,853	5.1%	2017
Loyola University Medical Center	\$ 1,334,936	\$ 119,982	9.0%	2017
Maimonides Medical Center	\$ 1,198,363	\$ 254,529	21.2%	2017
Maine Medical Center	\$ 1,238,828	\$ 182,663	14.7%	2016
Mary Imogene Bassett Hospital	\$ 543,088	\$ 34,162	6.3%	2017
Montefiore Medical Center	\$ 3,694,396	\$ 541,598	14.7%	2017
NYU Langone Hospitals	\$ 3,759,449	\$ 659,093	17.5%	2016
Penn Presbyterian Medical Center	\$ 743,253	\$ 40,917	5.5%	2017
Pennsylvania Hospital Of UPHS	\$ 635,896	\$ 45,625	7.2%	2016
Stanford Health Care	\$ 3,718,823	\$ 483,429	13.0%	2016
Strong Memorial Hospital	\$ 3,818,145	\$ 311,194	8.2%	2017
The Johns Hopkins Hospital	\$ 2,394,714	\$ 267,438	11.2%	2017
UF Health Shands	\$ 1,484,415	\$ 129,246	8.7%	2017
University of Chicago Medical Center	\$ 1,774,662	\$ 194,097	10.9%	2017
University of Maryland Medical System	\$ 1,616,200	\$ 192,815	11.9%	2017
Vanderbilt University Medical Center	\$ 4,046,629	\$ 499,921	12.4%	2017
Yale-New Haven Hospital	\$ 2,633,111	\$ 546,015	20.7%	2016
Totals/Average	\$ 54,910,317	\$ 6,480,905	10.8%	

Source: Data published in Community Benefits Insight. Tax years indicate the year during which fiscal years begin rather than end.

For these 32 benchmark organizations, the average net community benefit expense as a percent of total expense was 10.8 percent; the range was from 4.5 percent to 21.2 percent. In reviewing benchmarking information, it is important to recognize that there are significant variations between organizations which are due in part to differences in research accounting (i.e., whether research expenses primarily or exclusively are reflected on the books of the hospitals or of the affiliated medical schools), State public policies (e.g., whether the hospital's home state expanded Medicaid coverage under the Affordable Care Act), and other factors. As the UC Health systems continue to improve their systems for gathering these data, UC Health believes that the documented gross and net community benefit expenses incurred by the UC Medical Centers will increase.

UC Health Opportunities for Improvement in Community Benefit Reporting

Through the process of preparing this report, the UC health systems have identified a number of opportunities to improve the systems used to capture and account for data related to the community benefits provided by UC Medical Centers. For example, for this Community Benefit Report, program information and expenses were compiled retrospectively – many months after fiscal year 2018/2019 concluded—and relied on the same sources and data used to prepare the UC Medical Centers 2018/2019 Annual Financial Report. By contrast, organizations that have been required to file the Form 990 Schedule H annually have more than ten years of experience with community benefit reporting, and most gather program information concurrently, on a quarterly basis throughout the fiscal year, resulting in more comprehensive reports.

In the UC Medical Centers Annual Financial Report for 2018/2019, the UC Medical Centers reported providing \$606 million in Health System Support to the University of California Schools of Medicine.⁵ However, only \$48 million of that amount could be classified according to the Schedule H categories and guidelines and included in this Community Benefit Report. Future efforts, which will be led by the incoming UC Health Director of Finance, will focus on developing the data systems and data sources that would be needed to determine the extent to which additional amounts within the broad category of Health System Support can be properly categorized according to the Schedule H definitions of community benefit. In addition, this Community Benefit report includes only data reported by UC Health's hospitals, and not data reported by the 19 health professional schools. Future reports will endeavor to completely and accurately capture community benefits provided by the health professional schools.

UC Health believes that the following steps will allow UC Health to significantly improve its ability to collect and report on the community benefits provided:

- Clarifying the purposes and activities for which funds provided as Health System Support are being used by the health professional schools in order to determine which of those activities can be counted as community benefits.
- Preparing comprehensive surveys and inventories of community health programs and of cash and in-kind contributions for community benefit.

⁵ University of California Medical Centers 18/19 Annual Financial Report, page 3.

April 15, 2020

- Reporting additional health professional education program expenses (beyond those documented solely in Medicare Cost Reports), such as costs to precept nursing students, medical students, and other professionals.
- Conducting additional analysis to identify qualifying subsidized health services provided by the UC hospitals and health professional schools.

Finally, the work to prepare the community benefits report also identified a number of opportunities to improve the UC health systems' complete, accurate, and consistent reporting of the amounts of financial assistance or "charity care" provided to low-income patients, which is also included in the UC Medical Centers' Annual Financial Report,⁶ and in annual reports to California's Office of Statewide Health Planning and Development. The UC Health Director of Finance also will lead systemwide efforts to address and improve financial assistance reporting as well.

[Attachment 1: Community Benefit and Impact, UC Health](#)

⁶ University of California Medical Centers 18/19 Annual Financial Report, pages 69 & 74.