

Office of the President

TO MEMBERS OF THE HEALTH SERVICES COMMITTEE:

DISCUSSION ITEM

For Meeting of June 15, 2022

COMMUNITY BENEFIT AND COMMUNITY IMPACT ANNUAL REPORT

EXECUTIVE SUMMARY

Executive Vice President Byington, M.D., and UC Health Director Todd Hjorth will present the results of the recently completed report on the community benefits provided by the University of California Medical Centers and faculty practice groups for Fiscal Year 2020-21 (FY20-21).

Using the Internal Revenue Service (IRS) Form 990 Schedule H methodology of reporting community benefits, the University of California hospitals provided \$1.6 billion in community benefits in FY20-21. In addition, UC hospitals incurred approximately \$1.7 billion in uncompensated cost related to providing care to Medicare patients, bringing the hospital total to \$3.4 billion. If faculty practice group charity care and uncompensated care for Medicare and Medicaid are included, the total University of California Health community benefits come to \$4.1 billion in FY20-21.

BACKGROUND

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 hospitals 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. Each UC hospital also adopts an implementation strategy to address those needs. In addition, since 2020, UC Health committed to provide an annual update on the community benefits provided by each UC health center, which aligns with the principles and needs identified in the CHNAs. This Community Benefits Report presents data for FY20-21 and represents UC Health's third such update.

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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, and supplements the materials included in the audited financial report for the UC Medical Centers for FY20-21 that was approved by the Regents in November 2021. In addition, this year's report includes charity care and net Medicaid and Medicare patient care expense for the faculty practice groups for those five campuses and UC Riverside. The University of California also operates 20 health professional schools that provide many substantive benefits to communities throughout the state and beyond.

The information in this report is for the activities and programs accounted for within the UC Medical Centers and faculty practice groups. 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 the community benefits they provide, based on the IRS instructions as well as nationally-recognized guidelines.¹ Although as a governmental organization, the Regents are not required to submit information on behalf of the UC Medical Centers related to their community benefits to the IRS,² this report has been prepared in accordance with instructions published by the IRS for Schedule H. 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 2020-21.³ 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.

UC Health and each of the UC health centers 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 hospital completes at least once every three years and with the UC hospital's implementation strategy to address those needs.

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

¹ Since 1994, California state law also has required private, not-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 & Safety Code §§ 127345-60.

² 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 & 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.

³ <https://www.ucop.edu/financial-accounting/financial-reports/medical-center-financial-reports.html>

- 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.
- Helping to advance knowledge through health professions education and research that benefits the public.

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.

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	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. Financial assistance is reported based on cost – not the amount of gross patient charges forgiven.
Medicaid	The United States health program for individuals and families with low incomes and resources. 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.
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	Activities or programs carried out or supported for the express purpose of improving public health that are subsidized by the health care organization. Examples include: <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,

	<ul style="list-style-type: none"> • 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	<p>Contributions made by the organization to support community benefits provided by other organizations.</p>

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 uncompensated care costs and bad debt (in Part III). Medicare uncompensated care costs and bad debt are not reported as community benefit on Schedule H.

The following table provides the net community benefits provided by the UC Medical Centers in 2020-21.

UC Medical Centers and Faculty Practice Group (FPG) Net Community Benefits FY 2020-21

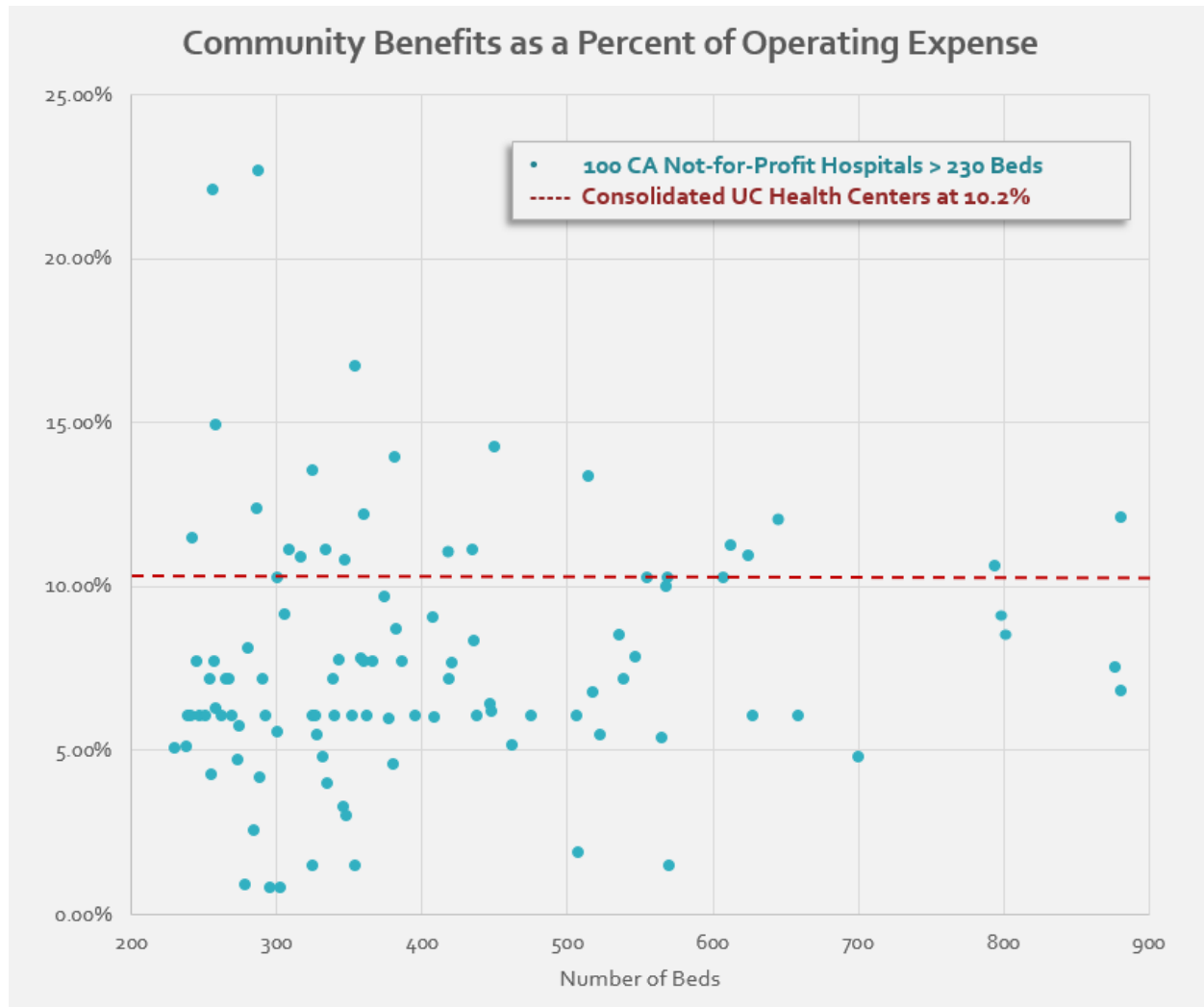
Medical Center FYE 2021 Community Benefits (\$000s)	Total Medical Centers	Adjusted Prior Year	Incr (Decr) Over Prior
Net community benefit expenses			
Financial assistance (charity care)	\$ 72,860	\$ 82,053	\$ (9,193)
Medicaid	1,024,358	1,170,361	(146,003)
Other means tested government program	1,766	2,033	(267)
Community health improvement services	72,070	63,781	8,289
Health professions education	344,352	300,018	44,334
Subsidized health services	26,687	28,876	(2,190)
Research	88,395	74,535	13,861
Cash and in-kind contributions	4,941	4,542	398
Net community benefit expenses	\$ 1,635,428	\$ 1,726,199	\$ (90,771)
Medicare	1,722,521	2,032,248	(309,726)
Community benefits with Medicare	\$ 3,357,949	\$ 3,758,447	\$ (400,498)
Community benefits as % of expenses			
Total operating expenses	16,079,401	16,180,293	(100,892)
Net community benefit expenses	10.2%	10.7%	-0.5%
FPG & Department FYE 2021 Community Benefits (\$000s)			
Net community benefit expenses			
Charity care	\$ 7,990		
Medicaid	204,483		
Medicare	545,119		
FPG Net community benefit expenses	\$ 757,592		
TOTAL COMMUNITY BENEFIT	\$ 4,115,542		

For the fiscal year ending June 30, 2021, the UC Medical Centers provided nearly \$3.4 billion in community benefits:

- \$1.6 billion in Medical Center net community benefits, a decrease of \$90 million over the prior year, due mostly to an increase in Medicaid supplemental payments.
- Losses (i.e., uncompensated costs) related to care provided to Medicare patients contribute another \$1.7 billion in community benefit, a decrease of \$400 million over the prior year.
- The faculty practice groups add \$757 million in net community benefit expenses related to uncompensated costs for Medicare and Medicaid patients, as well as charity care. The faculty practice groups and health professions schools provide other substantive community benefits that are not included in this report.

- On average, the UC Medical Centers' estimated net community benefit expense represents 10.2 percent of the UC Medical Centers' total expenses (calculated on the Schedule H total of \$1.6 billion).

Comparison to Benchmarks



Source: Data published in *Community Benefits Insight*, <https://www.communitybenefitinsight.org>

The UC Medical Centers' 10.2 percent average "net community benefit expenses as a percent of total expense" places UC Health in the 75th percentile of California not-for-profit hospitals whose bed size is greater than 230 beds.

Comparison to other California non-profit health systems (hospital size greater than 230 beds):

- Kaiser – 18 hospitals, reported as a system at 6.05 percent
- Providence – 8 hospitals, average = 8.25 percent
- Sutter – 8 hospitals, average = 8.54 percent
- Dignity – 7 hospitals, average = 7.17 percent
- Adventist – 4 hospitals, average = 7.2 percent

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It is important to recognize that there are significant variations between organizations that 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). It should also be noted that the most recent year that published data is available for other California hospitals is fiscal year 2019. Therefore, this is a comparison of UC Health fiscal year 2021 community benefits to statewide hospital community benefits for fiscal year 2019. 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 2020-21 concluded – and relied on the same sources and data used to prepare the UC Medical Centers 2020-21 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. This year, the faculty practice group reporting was expanded to include uncompensated care for Medicare patients. UC Health will continue to improve faculty practice reporting.

UC Health believes that the following steps will 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 professions 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.
- Reporting additional health professions 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 professions schools.

Improvements have been made on the items listed above, yet there is more that can be done. UC's Medical Centers have varying degrees of expertise and resources. Even so, they have been supportive and responsive to this effort of reporting community benefits. UC Health will continue to work with its hospitals, faculty practice groups and professional schools to improve community benefit reporting. The goal is to capture as completely as possible the great good that UC health service professionals provide to the communities in which they reside, and to the great State of California as a whole.