



Comments on Senate Finance Committee
Description of Policy Options
Financing Comprehensive Health Care Reform:
Proposed Health System Savings and Revenue Options

Submitted by:
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Dear members and staff of the Senate Finance Committee:

The Association for Healthcare Philanthropy (AHP) is pleased to present its comments on Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options. The comments below relate to the philanthropic work of nonprofit hospitals and how proposed legislation could have a negative impact on those efforts. With the challenges facing health care delivery and the definite need for philanthropic support, it is crucial that the role of the development office and its operation is fully understood so as not to thwart fundraising efforts and erode the public trust of nonprofit health care providers.

Background Information on AHP

AHP is an association of professional development executives who are responsible for the management of foundations and development departments of nonprofit health care providers throughout the United States. A critical part of their mission is supporting local health care programs through philanthropic fundraising that directly benefits the institution in which they work. These nonprofit medical facilities approach and have come to rely on the generosity of grateful patients who they have served to help underwrite wellness programs, mobile health vans, mammography screenings, hearing and eye exams, hospital facility improvements, essential equipment upgrades and health care services for the uninsured.

Established in 1967, AHP is a not-for-profit organization whose 5,000 members manage philanthropic programs of foundations and development departments in 2,200 of the nation's not-for-profit, charitable health care providers. In 2007, this philanthropic support reached \$8.35 billion according to AHP's most recent giving survey report. As a practical matter, most, if not all, of health care providers routinely factor into their budgets an expected level of philanthropic support.

AHP represents highly skilled fundraisers in health care philanthropy. Many hold the Certified Fund Raising Executive (CFRE) or the Fellow Association for Healthcare Philanthropy (FAHP) designation, which recognize professionalism in the field by documenting experience and testing knowledge in health care resource development. More than 60% of AHP members have been in the field of fundraising for 11 or more years, with 39% having been in the field for 16+ years. Our members believe in transparency and accountability in their work and follow the AHP Statement of Professional Standards and Conduct and its companion Donor Bill of Rights, copies of which are included with the letter. In addition, in 2006 AHP launched the AHP Performance Benchmarking Service. One of the goals of this program is to provide consistent reporting of fundraising dollars that AHP member organizations generate.

AHP members are an integral part of their health care institutions and are a critical component in attracting needed dollars to support community benefit programs. With that in mind, AHP is a supporting organization of the Catholic Health Association's *Guide for Planning and Reporting Community Benefit*.

Comments on Modifying Requirements for Tax-Exempt Status

AHP agrees with the premise that nonprofit hospitals which receive federal income tax benefits and subsidies should provide commensurate benefits to society. AHP firmly believes that the vast majority are doing just that. In fact at the July 24, 2007 House Ways and Means Subcommittee on Oversight hearing, testimony by the GAO stated that there are 1.8 million registered 501(c)(3)s with 55,000 delinquent with their taxes, or less than 3 percent delinquent. As stated by the IRS February 2009 Exempt Organization Hospital Study nonprofit hospitals are providing commensurate benefits with, overall, the average percentage of uncompensated care as a percentage of total revenues at 7%. As we review public charities and in this case specifically nonprofit hospitals, we must take into account that the majority of nonprofit hospitals are fulfilling their missions in providing community benefit and charity care. As with all industries, there are those that will try to take advantage of the system. These few should be dealt with appropriately but not to the detriment of nonprofit hospitals that are providing necessary care to the populations they serve.

As I mentioned earlier, AHP supports clearly defined terms for data reporting across the board for fundraising entities. Evidence of this is our successful launch of the AHP Performance Benchmarking Service. Philanthropic fundraising, now more than ever, is vital to sustain and grow the nonprofit health care sector's ability to deliver first class services to patients and communities. AHP's Performance Benchmarking Service advances this effort by transforming basic financial and program data into useful information that enables hospital CEOs and boards of directors to integrate philanthropy into their overall strategic planning for their health care organizations.

AHP members have as their missions to serve their communities. According to AHP's Report on Giving 2007, health care institutions in the U.S. raised \$8.35 billion through philanthropy, a 5,6% increase over 2006. Those dollars are being used for health care construction and renovation, equipment purchases, community benefit programs, charitable care, research and training, general operation, among others. In 2007, the largest expense item for institutions was construction and renovation, accounting for 28.5%. Each year AHP members provide data that demonstrate where their philanthropic dollars are being used by their health care organization in order to support their missions – to serve their communities.

With that in mind, as policymakers review 501(c)(3) tax-exempt health care organizations, AHP would like to share with you a number of critically important challenges facing the not-for-profit health care community and some steps AHP is taking to meet these challenges. It is important to understand the environment that health care fundraisers are currently working within to fully grasp the importance of their institutions' tax-exempt status and the need for transparency and accountability. Although health care reform is intended to alleviate some of the burden for nonprofit hospitals, most still will exist and present financial challenges.

These challenges fall into three main categories: long-term cultural trends, financial challenges, and regulatory concerns.

First, the long-term trend that permeates a whole range of issues confronting the health care community is the sense of entitlement that has developed over the years with regard to health care delivery. This development in our society creates many stumbling blocks for health care philanthropy – particularly for hospitals, medical centers, long-term care facilities and hospices.

Patients believe that they have a right to the highest quality of care; that the US has the best health care in the world; that it is far too expensive; and that third parties such as insurance companies are making decisions about health care unrelated to the delivery of good care – decisions that should be made by physicians and nurses. For philanthropy, it raises the question - why donate to such a system?

In addition, few Americans are aware of the differences between for-profit and not-for-profit health care providers or the fact that only 12 to 14 percent of providers are in a for-profit delivery system. Fewer still know that only about one-third of hospitals in the United States have a positive bottom line, while another third are barely keeping their heads above water and the rest are deep in red ink and financially in trouble.

Second, the financial challenges to nonprofit health care providers are many. Some are linked to the fact that many hospitals have postponed capital spending and underinvested in their infrastructure. They need to address deteriorating facilities, but fully 85 percent of hospital chief financial officers say it is going to be more difficult for their organizations to fund capital expenditures in future years.

At the same time, technology's promise, particularly in health care delivery, has created enormous stresses on finances relative to providing quality health care and using cutting-edge technology in providing that care. Expensive technological initiatives need to be undertaken to maintain effectiveness, while operating margins that already are thin threaten to become thinner, placing more responsibility on philanthropy to fill in the gap.

Similarly, the burden of meeting the health care needs of the uninsured, including non-citizens, weighs heaviest on the nonprofit sector, even as revenues from Medicare and Medicaid decline.

The Policy Options document calls for quantifiable definitions for charity care and community benefit. AHP is concerned with the amount of attention provided only to charity care. A large part of what nonprofit hospitals provide goes beyond charity care and includes community benefit programs and services, the above mentioned capital/technology improvements, not to mention providing for the bottom line of many hospitals.

As previously mentioned according to AHP's most recent Report on Giving, construction and renovation is the largest expense item for philanthropic dollars: 28.5% in FY 2007, 31.8% in FY 2006, and 23.9% in FY 2005. Once again, equipment was the second largest. Only 14.8% of funds were used for general operations and 10.8% for community benefit programs. Endowments accounted for 6% of all funds, while research and teaching accounted for 4.7%.

The Policy Options document recommends: that no hospital can maintain 501(c)(3) status without dedicating a minimum level to charity care. Charity care would not include bad debt and bad debt can not be recharacterized as charity care later. Critical access hospitals would be exempt from this provision. The IRS February nonprofit hospital study also states that, "The data suggests that any attempt to refine the standard will seriously impact the existing tax exempt hospital sector because of hospitals' varying practices and financial capabilities. Put another way, any revised standard would affect the different types and sizes of hospitals depending upon the types of activities required to be taken into account as community benefit, the quantitative measure (if any) included in such a standard, and the extent the rule provides for exceptions or special rules."

AHP asks the committee to recognize that nonprofit hospitals do provide community benefit and that community benefit encompasses more than charity care. AHP asks that the committee not jeopardize the viability of nonprofit hospitals by removing their tax exempt status.

Comments on Limiting the Tax Rate for Itemized Deductions

AHP applauds the overall efforts to reform health care. However, the proposal for limiting the tax rate for itemized deductions sends the wrong message at the wrong time to those who support charitable causes. It puts forward a scheme that would effectively devalue charitable gifts made by the very people who are in a position to make substantial donations at a time when they are sorely needed. For those who earn more than \$250,000, the proposal would limit the federal tax deduction they may take for their generosity to 28 percent. Currently, they may claim up to a 35 percent deduction.

In these challenging economic times, charities and nonprofits already are finding it difficult to fulfill their altruistic missions because of reduced donations and resources. Yet, in times of economic trouble, it is charities and nonprofits that do much to augment the work of the federal, state and local government in meeting the needs of the American public through their vital programs and services. In fact, charities currently are being asked to provide even greater levels of assistance. The federal government, therefore, should seek ways to bolster charitable giving—as opposed to requiring charities to do more with less.

In fact, research published by the Congressional Budget Office from 1997, the Urban Institute from 2001, the Association for Healthcare Philanthropy from 2008 and the Center on Philanthropy at Indiana University from 2009 all state that giving is sensitive to price incentives provided by after-tax costs. The question that remains is: by how much?

A report by Indiana University “suggests that had these proposals been in place in 2006, total itemized charitable giving by households would have dropped by 2.1 percent.” And that number fails to take into account the current large decline in America’s personal wealth. Americans’ generosity in support of nonprofit hospitals and health care systems is substantial, totaling \$8.35 billion last year according to AHP’s Report on Giving 2007. This report reveals an important insight concerning the importance of public backing for the nonprofit health care community: Almost 83 percent of all donors last year were individuals. Individuals provided 61 percent of all donations. Can American hospitals afford to lose 2.1 percent or more in contributions from these families?

Probably not. And, unfortunately, the growth rate of giving to the health care sector is slowing down and the number of donors is flat. According to a 2007 Chronicle of Philanthropy article, “Contributions to health-care institutions rose last year (2006) by 8.3 percent, adjusted for inflation, compared with a 12.9-percent rise from 2004 to 2005.” The same conclusion was drawn from an AHP-sponsored study released in September 2008, by John Volpe, Ph.D., collegiate professor at the University of Maryland University College. In *Economic Cycles and Charitable Giving* Volpe concludes that a slowing of the growth in Gross Domestic Product and disposable personal income, as well as uncertainty over the economy are likely to contribute to weakness in charitable giving through 2009.

Yet such charitable giving is and will remain vital to the hospitals and systems to which it flows. According to the American Hospital Association (AHA) November 2008 Report on the Economic Crisis, the capital crunch is making it difficult and expensive for hospitals to finance facility and technology needs. The AHP Report on Giving indicates that more than 45 percent of charitable giving was put to use to upgrade infrastructure, including often long-overdue construction and renovation projects and equipment purchases. An additional 25 percent supported important functions such as community benefit programs, charitable care, research and teaching, and hospice, long-term and nursing care. About 14 percent went to general operations.

These accomplishments were achieved through fundraising and its outreach efforts to grateful families. While the Nation's health care needs are increasing, we must avoid creating obstacles that will diminish and discourage philanthropy.

The steep decline in personal wealth, especially if coupled with proposed limitations on tax deductions, make the outlook for philanthropy over the next 18-24 months bleak. For philanthropy to continue to fulfill its role in the American health care system, this is not the time to drastically change standards for fundraising.

Given the potential devastating impacts of this budget provision on charitable giving, AHP strongly opposes any provision that would impose new limits on charitable deductions. AHP is joined in this opinion by the Association for Fundraising Professionals (AFP).

Summary

AHP is confident nonprofit hospitals are providing substantially more charity care and community benefits than for-profit hospitals – and many are doing this while not even achieving a 3% operating margin. Government officials and legislators need a better understanding of philanthropy.

With that in mind, AHP wants to take the opportunity to educate legislators, the media and the public with regard to nonprofit health care providers and their tax-exempt status. AHP fully supports legislation that stems tax-avoidance scams and that shines more light on compensation packages of nonprofit executives. However, there is a real danger that an all too common problem will arise: unintended consequences. With the challenges facing health care delivery and the definite need for philanthropic support, it is crucial that the role of the development office and its operation is understood fully so as not to thwart fundraising efforts and erode the public trust of nonprofit health care providers.

In summary, AHP members feel that every dollar donated is critical, and we are taking all necessary steps to ensure we achieve the most efficient return on the philanthropic investments of grateful donors and their families. We welcome your questions and ask for a response to these comments as they relate to the philanthropic work of nonprofit hospitals and how you see your proposed reforms would impact the necessary work of nonprofit hospital development offices as they carry out their missions to serve the communities of their health care institutions.

Enc.: AHP Statement of Professional Standards and Conduct
Donor Bill of Rights

Association for Healthcare Philanthropy Statement of Professional Standards and Conduct

All members shall comply with the Association's Statement of Professional Standards and Conduct:

Association for Healthcare Philanthropy members represent to the public, by personal example and conduct, both their employer and their profession. They have, therefore, a duty to faithfully adhere to the highest standards and conduct in:

I. Their promotion of the merits of their

institutions and of excellence in health care generally, providing community leadership in cooperation with health, educational, cultural, and other organizations;

II.
Their words and actions, embodying respect for truth, honesty, fairness, free inquiry, and the opinions of others, treating all with equality and dignity;

III.
Their respect for all individuals without regard to race, color, sex, creed, ethnic or national identity, handicap, or age;

IV.
Their commitment to strive to increase professional and personal skills for improved service to their donors and institutions, to encourage and actively participate in career development for themselves and others whose roles include support for resource development functions, and to share freely their knowledge and experience with others as appropriate;

V.
Their continuing effort and energy to pursue new ideas and modifications to improve conditions for, and benefits to, donors and their institution;

VI.
Their avoidance of activities that might damage the reputation of any donor, their institution, any other resource development professional or the profession as a whole, or

themselves, and to give full credit for the ideas, words, or images originated by others;

VII.
Their respect for the rights of privacy of others and the confidentiality of information gained in the pursuit of their professional duties;

VIII.
Their acceptance of a compensation method freely agreed upon and based on their institution's usual and customary compensation guidelines which have been established and approved for general institutional use while always remembering that:

a. any compensation agreement should fully reflect the standards of professional conduct; and,

b. antitrust laws in the United States prohibit limitation on compensation methods.

IX.
Their respect for the law and professional ethics as a standard of personal conduct, with full adherence to the policies and procedures of their institution;

X.
Their pledge to adhere to this Statement of Professional Standards and Conduct, and to encourage others to join them in observance of its guidelines.

A Donor Bill of Rights

Philanthropy is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To assure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the not-for-profit organizations and causes they are asked to support, we declare that all donors have these rights:

I.
To be informed of the organization's mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for their intended purposes.

VI.
To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by law.

- II.
To be informed of the identify of those serving on the organization's governing board, and to expect the board to exercise prudent judgment in its stewardship responsibilities.
- III.
To have access to the organization's most recent financial statements.
- IV.
To be assured their gifts will be used for the purposes for which they were given.
- V.
To receive appropriate acknowledgment and recognition.

- VII.
To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.
- VIII.
To be informed whether those seeking donations are volunteers, employees of the organization or hired solicitors.
- IX.
To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.
- X.
To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.

DEVELOPED BY
American Association of Fund Raising Counsel (AAFRC)
Association for Healthcare Philanthropy (AHP)
Council for Advancement and Support of Education (CASE)
National Society of Fund Raising Executives (NSFRE)

ENDORSED BY
(in formation)
Independent Sector
National Catholic Development Conference (NCDC)
National Committee on Planned Giving (NCPG)
National Council for Resource Development (NCRD)
United Way of America

