

# Expanding the local property tax base

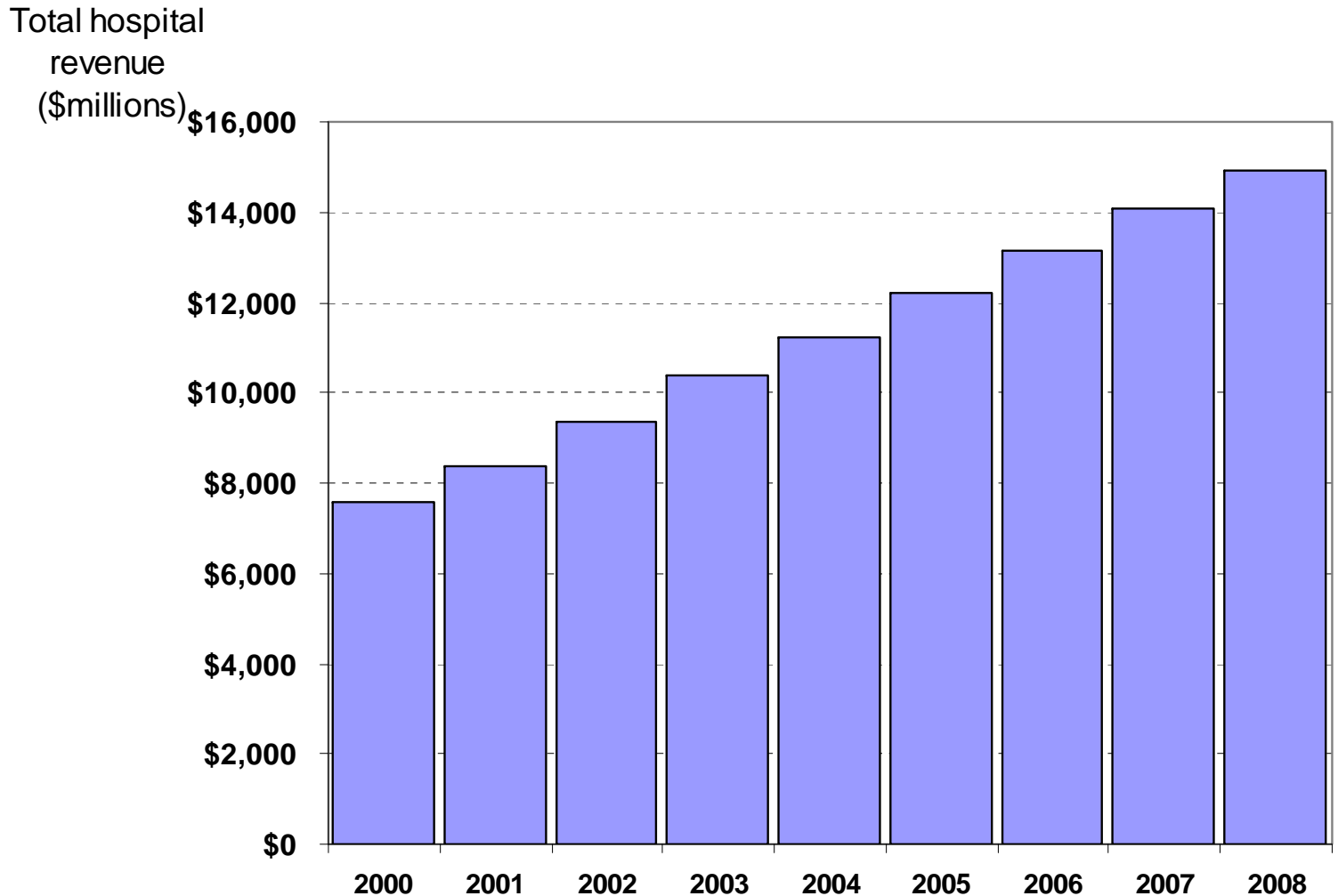


## The profitable nonprofit healthcare systems

# Why focus on nonprofit health care?

That's where the money is.

**Wisconsin hospital revenue has grown nearly 9% annually**



Source: Wisconsin Hospital Association's *Guide to Wisconsin Hospitals*

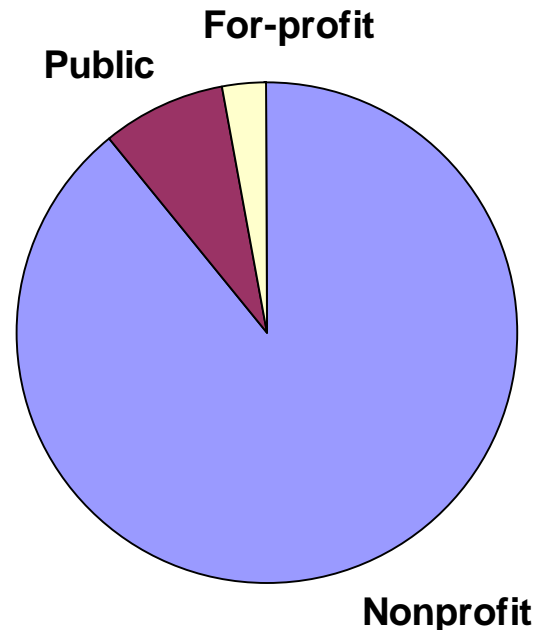
# Wisconsin's hospitals are overwhelmingly nonprofit institutions

Wisconsin hospitals had \$14.9 billion in revenue in FY2008.

Nonprofit hospitals received 89% of the revenue; public hospitals 8%; for-profit hospitals 3%.

Source: Wisconsin Hospital Association's *Guide to Wisconsin Hospitals*

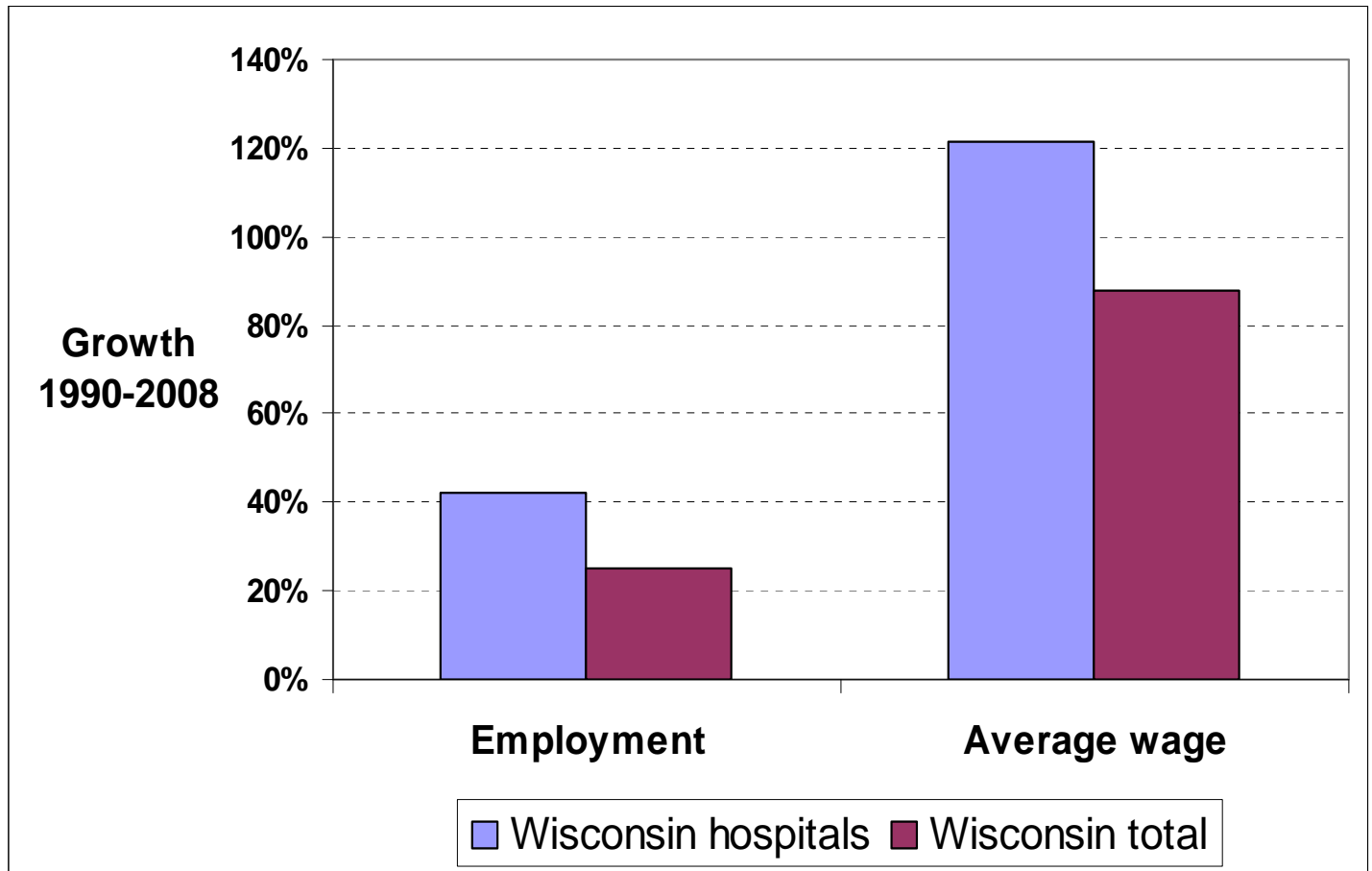
Revenue by hospital type FY2008



# Wisconsin hospitals show fast growth in jobs and wages outpacing the overall economy in total employment and wage growth.

In 1990,  
hospital jobs  
paid 3% less  
than the  
average  
Wisconsin  
job overall.

In 2008, the  
average  
hospital  
wage was  
14% above  
the overall  
average.



# Property tax exemptions for nonprofit hospitals were created in 1957.



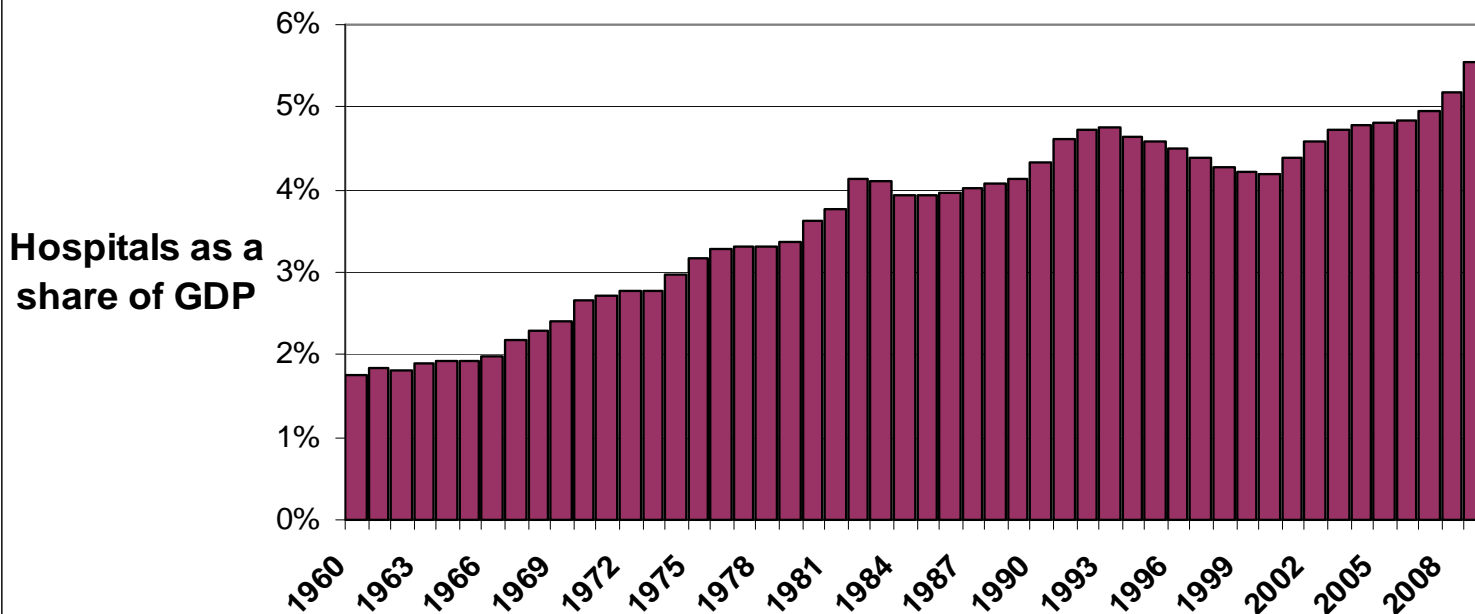
## Criteria for non-profit status:

- The exemption is limited to property used exclusively by the hospital.
- A hospital must have at least 10 beds and provide diagnosis, treatment and care of the sick, injured and disabled.
- A hospital must be owned and operated by a corporation or similar entity and none of its net earnings may benefit any shareholder, member, director or owner of that entity.
- A hospital may not principally benefit the private practice of a doctor or group of doctors, or be an adjunct to their practice.

There were minor adjustments in 1977, 1979, 1995 and 1997.

# But the hospital industry has changed radically since 1957.

## Hospitals a growing share of the economy Account for 5.5% of Gross Domestic Product (GDP)



Since 1957, the hospital share of the U.S. economy has more than tripled.

Nearly 6% of the U.S. economy involves checks payable to a hospital.

Sources: US Centers for Medicare and Medicaid Services; US Bureau of Economic Analysis

# Hospital finance is completely revamped.

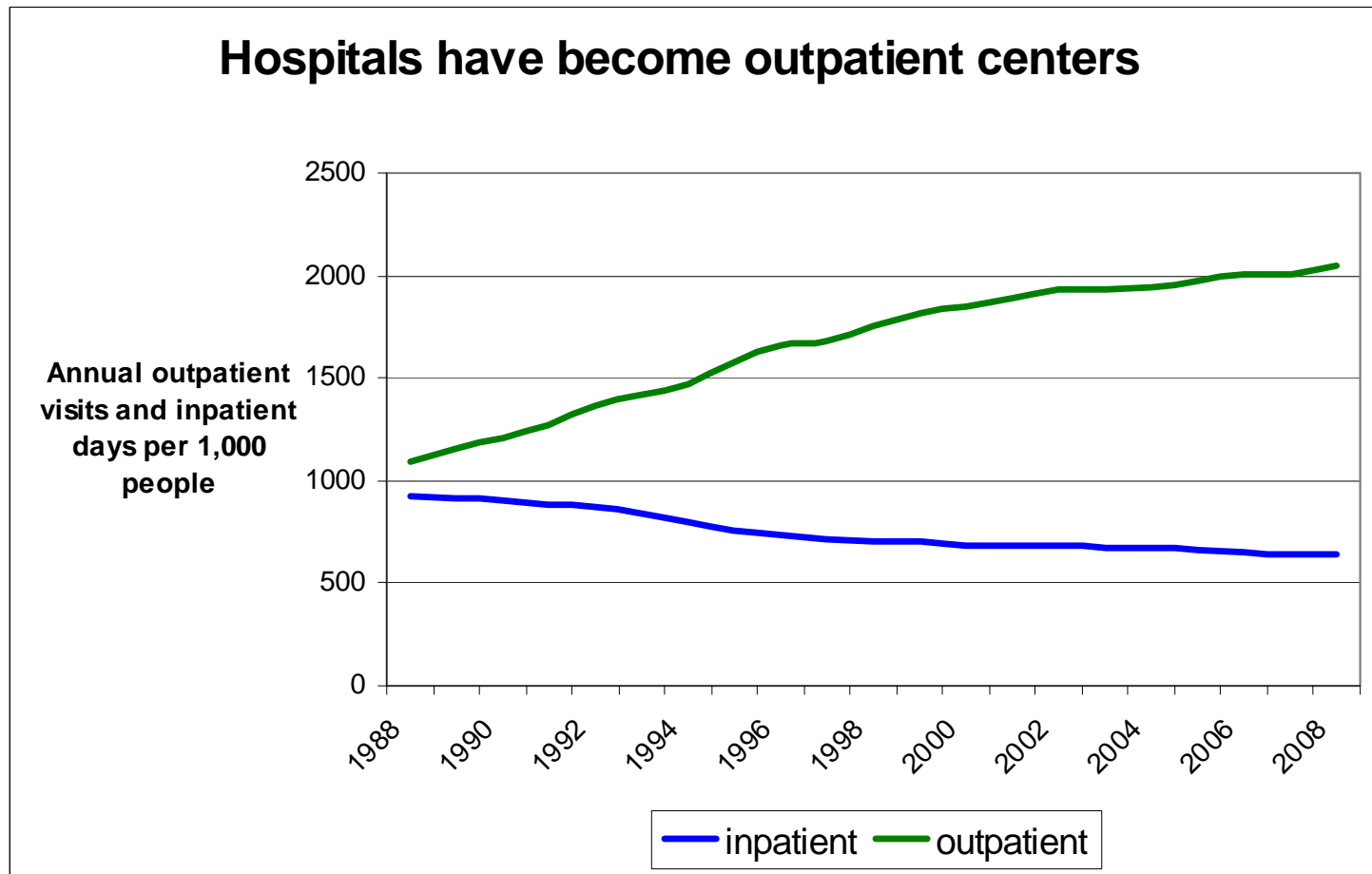
In 1957, no one had ever uttered these phrases:

- *“Medicare”*
- *“HMO” and “PPO”*
- *“Managed Care”*
- *“Medicaid”*

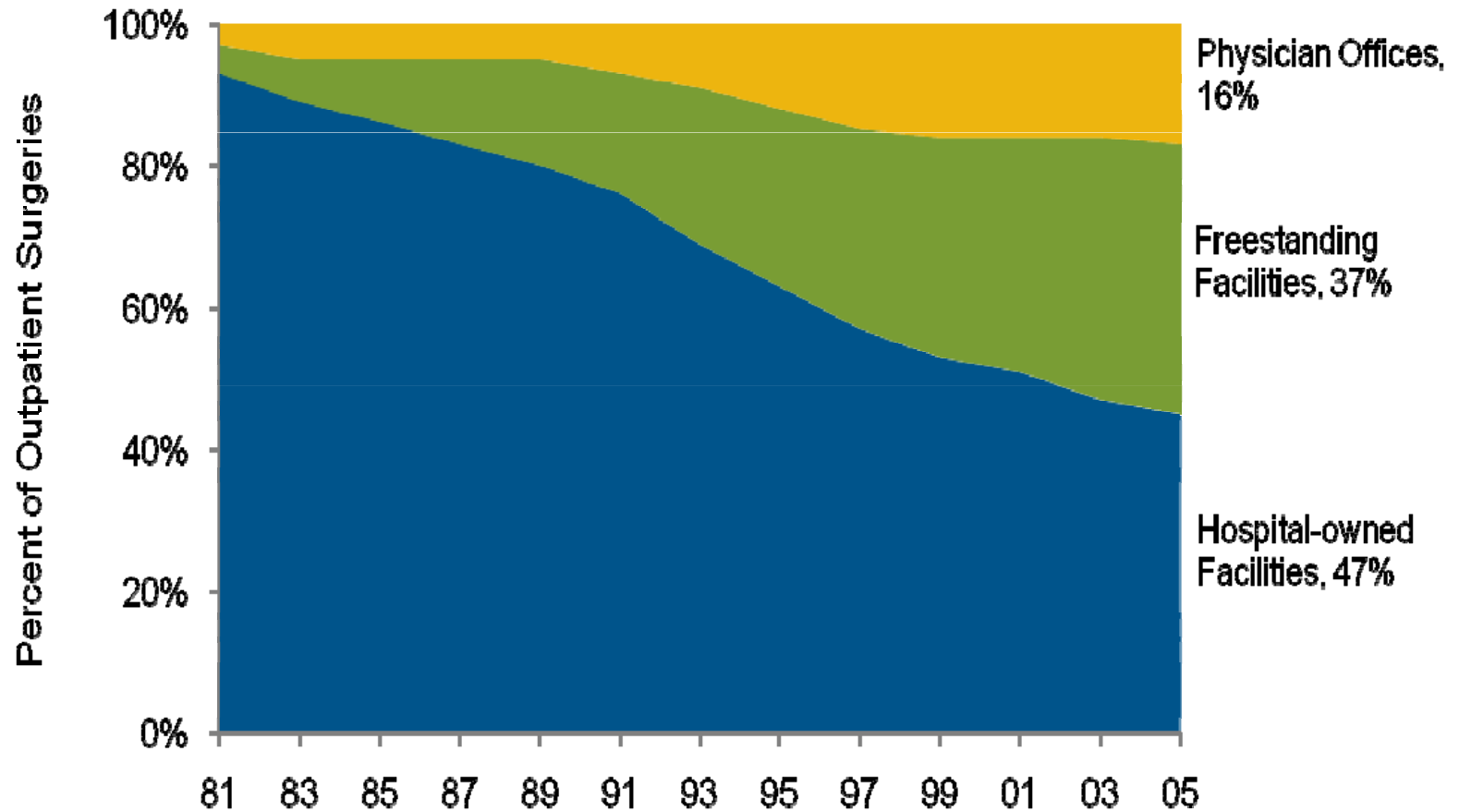


Today, these systems dominate the industry.

# The hospital itself has changed -- Drive-through medical care



# Increasing activity takes place in associated clinics and satellites.

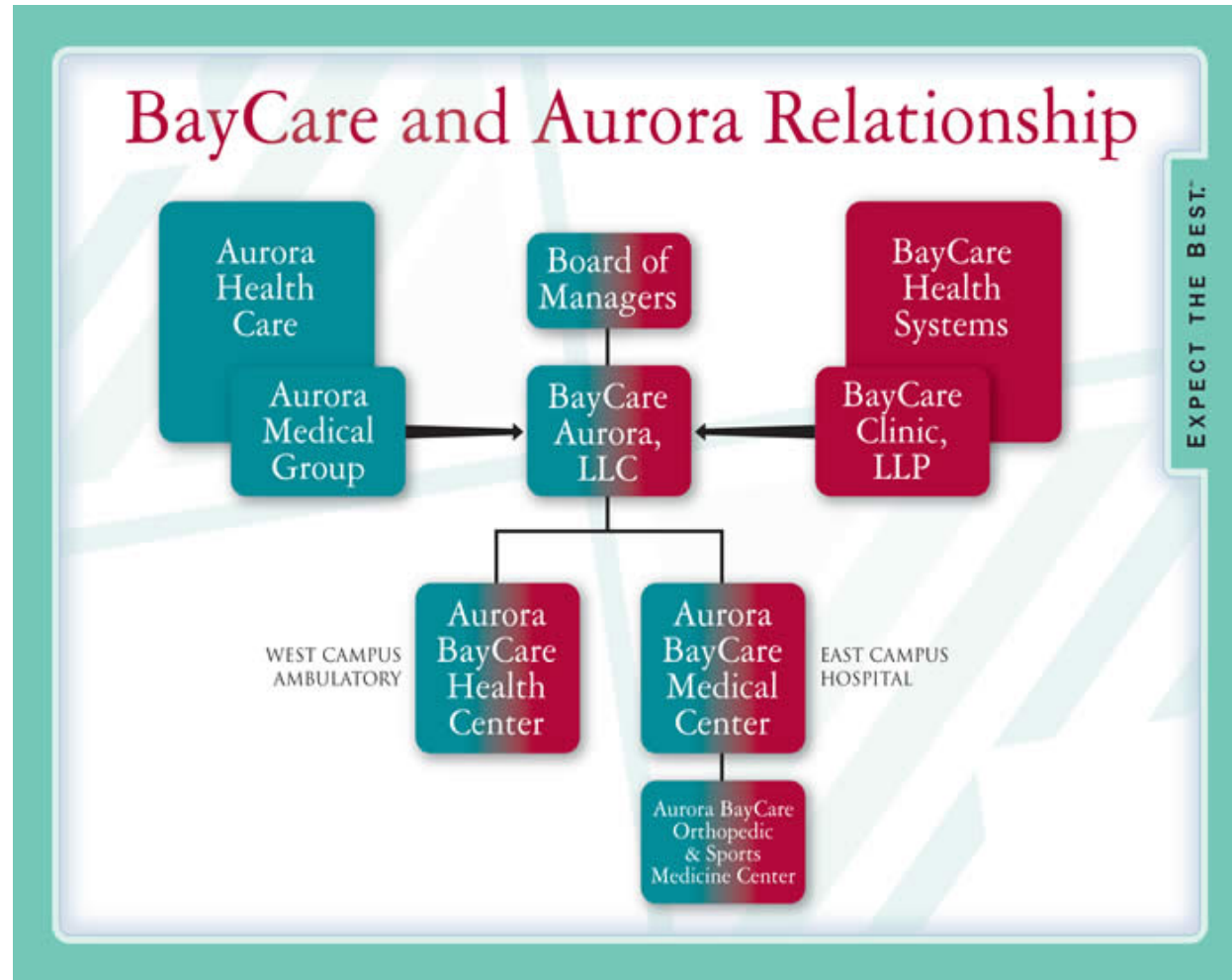


# Hospitals have merged and consolidated into systems, just as corporations have.

“The past decade has seen profound changes in how the hospital industry organizes itself.

Standing out among these changes has been the extensive consolidation of hospitals through merger and the rising importance of hospital systems.”

Alison Evans Cuellar and Paul J. Gertler  
*Health Affairs (2003)*



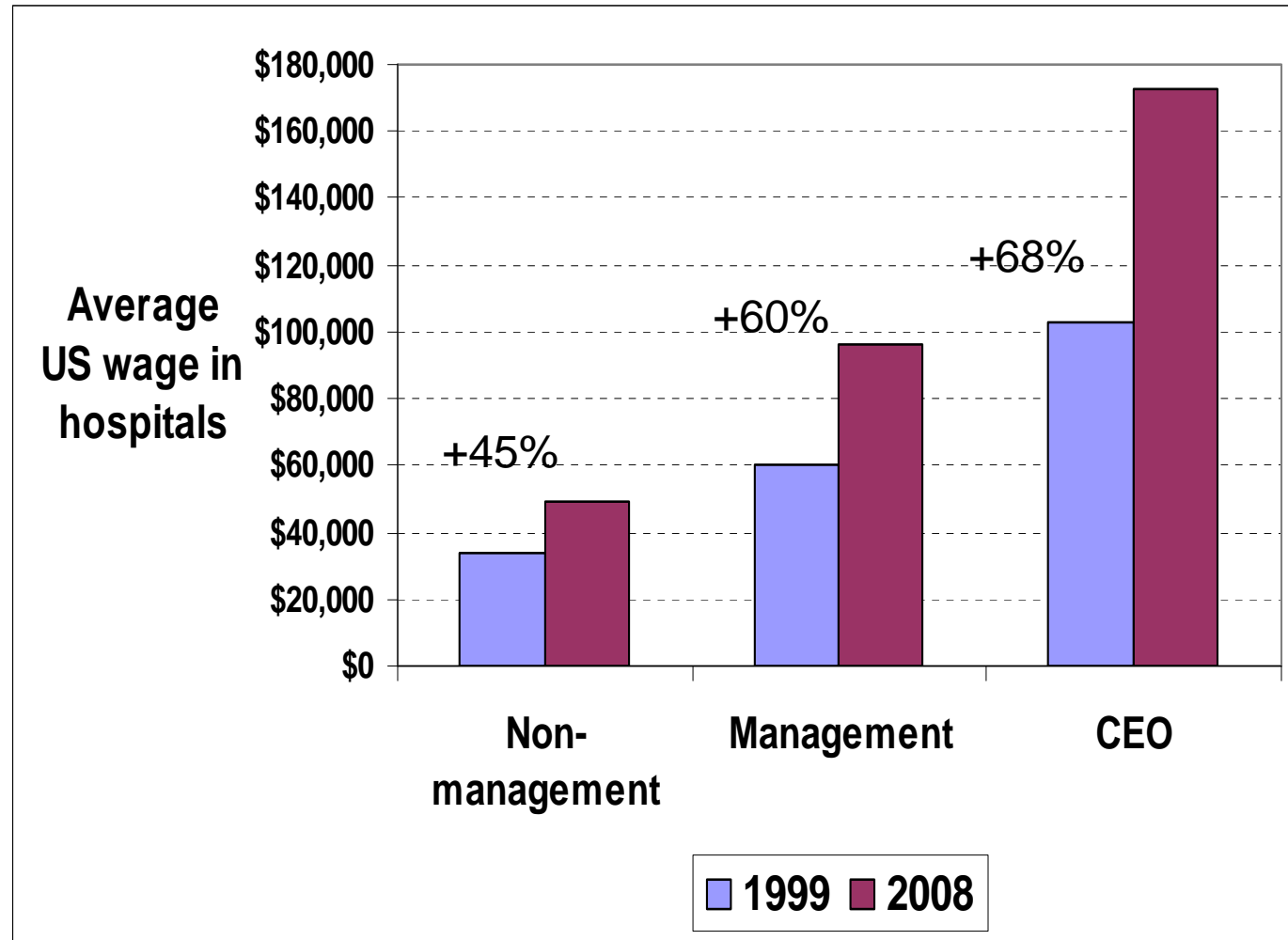
## Independent stand-alone hospitals now a minority

# Like the rest of corporate America, hospital executives' pay soars.

The CEO of Children's Hospital of Wisconsin earned \$1,440,472 in 2007.

Aurora Health Care's CEO earned \$906,465 in 2007.

The CEO of Gundersen Lutheran earned \$718,599 in 2008.



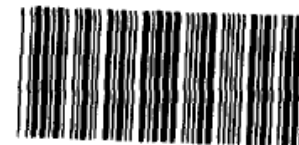
# The U.S. General Accounting Office has long questioned hospital exemptions.

**1991 Congressional testimony:  
“NONPROFIT HOSPITALS:  
Better Standards Needed for Tax Exemption”**

United States General Accounting Office 144334

**GAO**

**Testimony**



144334

**For Release  
on Delivery  
Expected at  
10:00 a.m.  
Wednesday  
July 10, 1991**

**NONPROFIT HOSPITALS:  
Better Standards Needed for Tax  
Exemption**

# The Congressional Budget Office (CBO) has also questioned nonprofit operations.

“Nonprofit hospitals were more likely than for-profit hospitals to provide certain specialized services but were found to provide care to **fewer Medicaid-covered patients** as a share of their total patient population. On average, **nonprofit hospitals** operate in areas with **higher average incomes, lower poverty rates, and lower rates of uninsurance** than for-profit hospitals.”



**Nonprofit Hospitals and the  
Provision of Community Benefits**

December 2006

# CBO: Property tax exemptions are most valuable break for nonprofit hospitals.

## Estimated Value of Tax Exemptions Provided to Nonprofit Hospitals, 2002

	Value (Billions of dollars)
Corporate Income Tax (Federal)	2.5
Tax-Exempt-Bond Financing (Federal)	1.8
Charitable Contributions (Federal)	1.8
Corporate Income Tax (State)	0.5
Sales Tax (State and local)	2.8
Property Tax (Local)	3.1
<b>Total</b>	<b>12.6</b>

Source: Joint Committee on Taxation.

# Wisconsin hospitals own \$7 billion worth of land, buildings & equipment.



In annual reports for the state, Wisconsin hospitals estimate the net value of their land, buildings and equipment.

The statewide total in FY2008 was \$6.9 billion.

At the state average property tax rate (18.6 mills), the tax would be \$128 million. This is a conservative estimate.

# If hospitals paid local property tax...

Milwaukee	\$19,301,834
Wauwatosa	\$13,784,539
Green Bay	\$8,653,580
Madison	\$6,994,348
Eau Claire	\$4,927,779
Waukesha	\$4,174,294
Racine	\$4,003,601
Kenosha	\$3,725,661
La Crosse	\$3,389,757
Wausau	\$2,909,383
Janesville	\$2,907,201
Oshkosh	\$2,828,911
Mequon	\$2,607,742
Fond du Lac	\$2,185,825
Appleton	\$2,138,756
West Allis	\$2,037,128



Estimates in the chart assume all hospitals pay taxes on the full amount they list as property, paying at the state average rate.

# 1957 hospital tax law needs modernization.

Property tax exemptions needs legislative do-over.

## Possible legislative actions

- Option 1. Rewrite standards for community benefits
- Option 2. Remove all exemptions from nonprofit hospitals
- Option 3. Specify portions of hospital property that are not exempt
- Option 4. Mandate a payment-in-lieu-of-tax (PILOT)

