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**JOE CAHILL ON BUSINESS**

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**One ailment hospitals don't want to cure**

Maybe nonprofit hospitals are providing enough charity care to justify their tax exemptions. Then again, maybe they aren't. It's a question that merits informed debate. And we don't have the information we need for that debate.

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Owners of Illinois real estate bear one of the heaviest property tax burdens in the country, except for those lucky enough to qualify for exemptions.

Among the fortunate few are private nonprofit hospitals, some of which own valuable land around the Chicago area. For example, Northwestern Memorial Hospital's Streeterville campus occupies some of the priciest real estate in the country. The area around Rush University Medical Center on the Near West Side has morphed into one of Chicago's hottest neighborhoods.

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**Nonprofit hospitals forced to defend hundreds of millions in property tax breaks**

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Yet these holdings are largely free from the crushing property tax bills that squeeze businesses and households throughout metropolitan Chicago. This immensely valuable benefit comes with one very important condition. Hospitals claiming the exemption must provide free care to people who can't afford medical treatment.

Periodically, hospitals come under fire from activists arguing that they don't provide enough charity care to justify property tax exemptions. In 2010, the Illinois Supreme Court upheld the [revocation of a downstate hospital's exemption](#) on the grounds that it provided insufficient free care. But last year, the court [rejected a challenge](#) to the state law establishing the exemption.

As my colleague Stephanie Goldberg [reported in Crain's this week](#), debate over hospital tax exemptions has flared anew. Some progressive Chicago aldermen are pushing a bill that would require nonprofits to make payments in lieu of taxes to the city. Cook County Health CEO John Jay Shannon has publicly chided private nonprofits for "dumping" uninsured patients on the two public hospitals he oversees.

Stroger Hospital, the flagship public hospital in Cook County, provided charity care valued at \$324.6 million last year, an amount equal to 54 percent of its revenue, and twice the combined charity care for the nine largest nonprofit hospitals. Charity care at those institutions generally runs in the range of 1 percent to 2 percent of revenue.

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Hospitals say they're doing plenty to warrant property tax exemptions. In addition to charity care, they point to community benefits such as health screenings, medical research and programs that help patients pay for prescription drugs.

"Hospitals earn their exemptions every day," Danny Chun, spokesman for the Illinois Health and Hospital Association, a hospital lobbying group, told Goldberg.

Do they? Hard to say.

Under state law, hospitals qualify for the property tax exemption if the charity care and service they provide to poor people equals or exceeds the value of the property taxes they would otherwise pay. Sounds simple enough: Look at the value of charity care provided by a hospital; then look at the estimated property tax bill a hospital would get without an exemption. If the first number exceeds the second, the hospital has met the legal standard for the property tax break.

Trouble is, we don't know the numbers. We know how much charity care nonprofit hospitals provide. But we don't know how much additional charitable services they're providing to poor people, or how much property tax they would have to pay if they didn't get an exemption.

Which brings us to an interesting wrinkle of the law governing property tax exemptions for hospitals. The statute leaves it to hospitals to estimate the value of their real estate and the tax liability it would generate.

You read that right. In effect, hospitals themselves make the calculations that determine how much free care they need to provide in order to qualify for a property tax exemption. Unlike the rest of us, they don't have to live with the county assessor's numbers.

Needless to say, this approach creates an incentive to lowball both the valuation and the liability estimate. The lower the estimate, the lower the bar for free care.

Hospitals, not surprisingly, won't disclose their property tax estimates. Even the Cook County Assessor's Office, which collects the data, is requiring a FOIA request for the information. If you're familiar with the FOIA process, you know it's often used to frustrate press inquiries and limit access to information that should be available to the public.

And the public deserves access to hospital property tax estimates. Hospitals are getting a tremendous benefit at the expense of other property owners. The Center for Tax and Budget Accountability estimated ten years ago that 47 nonprofit hospitals around Chicago were reaping property tax breaks worth \$280 million a year, "by far the most valuable tax benefit nonprofit hospitals receive."

What's the exemption worth today? We don't know, and that's a big problem. Local taxing authorities don't even have an objective third-party estimate of how much tax money they're giving up.

We do know a couple of things: If hospital properties were on the tax rolls, cash-strapped Illinois municipalities would have more revenue sources; and other taxpayers would carry less of the overall tax burden if some large properties in communities throughout the area were contributing.

It would take a change in state law to revoke hospitals' power to estimate the amount of property taxes their properties would generate without the exemption. Failing that, maximum transparency is the best hope for effective public oversight.

We need public disclosure of hospital property tax estimates for a couple of reasons. First, it would allow us to determine whether hospitals are underestimating the value of their property. Second, it would reveal whether they're providing enough charity care. Maybe they are, and maybe they aren't. It's an important question that requires informed debate. And we don't have the information we need for that debate.

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