CALIFORNIA STATE AUDITOR
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FACT SHEET

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The California State Auditor released the following report today:

Nonprofit Hospitals

Inconsistent Data Obscure the Economic Value of Their Benefit to Communities, and the Franchise Tax Board Could More Closely Monitor Their Tax-Exempt Status

BACKGROUND

Of California's roughly 344 private hospitals, about 223 may be eligible for income and property tax exemptions because of their nonprofit status. In exchange for tax-exempt status, hospitals are expected to assume a social obligation and provide community benefits in the form of health care or other services. The State Board of Equalization (Equalization) and county tax assessors jointly administer local property tax exemptions while the Franchise Tax Board (tax board) grants state income tax exemptions. Data collection and oversight of these tax-exempt nonprofit hospitals is provided by other agencies in addition to those that administer the tax exemptions. The Office of Statewide Health Planning and Development collects annual financial reports from licensed hospitals, while the Office of the Attorney General oversees the transfer of assets by nonprofit hospitals and investigates complaints.

KEY FINDINGS

Our review of the nonprofit hospitals with tax-exempt status highlighted the following:

- The value of uncompensated care provided by nonprofit and for-profit hospitals is relatively similar when comparing financial data. However, various community benefits that nonprofit hospitals provide differentiate them from for-profit hospitals.
- State law does not mandate uniform reporting and provides nonprofit hospitals with little guidance in preparing required community benefit plans.
- In the 40 required community benefit plans we reviewed, we found significant variations in categories of services and associated economic value, which precluded any meaningful comparisons of community benefits.
- The tax board does not review information submitted in annual reports to determine organizations' ongoing eligibility for income tax exemptions.
- County assessors frequently misreport the values of tax-exempt buildings and contents owned by nonprofit hospitals.
- Equalization appears to provide appropriate guidance to county tax assessors in administering property tax exemptions.

KEY RECOMMENDATIONS

We made several recommendations, including some to the Legislature, such as prescribing mandatory formats and methodologies for completing community benefit plans and granting tax-exempt status based on hospitals providing a certain level of community benefits. We also recommended that Equalization verify the accuracy of the annual reports submitted by the county assessors. Moreover, we recommended that the tax board develop methodologies to monitor nonprofit hospitals' continuing eligibility for income tax exemptions and determine the extent to which it can rely upon the Internal Revenue Services' audits.