



American Hospital
Association

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March 5, 2010

Sent via Messenger

The Honorable Douglas Shulman
Commissioner
Internal Revenue Service
1111 Constitution Ave., NW
Washington, DC 20224

Dear Commissioner Shulman:

We are writing on behalf of the American Hospital Association's (AHA) more than 5,000 member hospitals, health systems and other health care organizations, and 40,000 individual members. We would like to meet with you to discuss the findings of an Urban Institute study that concluded Schedule H for Form 990 *will not accurately reflect the community benefit activities of many multi-hospital systems*. An article that appeared in AHA's *Trustee* magazine reporting the study results is enclosed.

The AHA has long supported providing more useful information to the public and policymakers about the activities and programs undertaken by nonprofit hospitals to benefit their communities. To that end, we worked closely with the Internal Revenue Service in developing Schedule H, the new community benefit reporting form for nonprofit hospitals.

We recognized early on that developing a single form to capture information from a nonprofit sector as diverse as the hospital field would be a challenge. Among the challenges we identified to the Service was the difficulty hospital systems would face in reporting community benefits because of the decision to require reporting solely by Employer Identification Number (EIN). We believed that most hospital systems have more than one EIN. Because of the EIN-based filing requirement, hospital systems would be filing multiple forms with no means to connect the different filings, and with no means to explain or compensate for the skewed results of the multiple filings.

Because of the potential scope of this reporting issue - nearly 60 percent of nonprofit hospitals are part of systems - we asked Brad Gray, Ph.D., a senior fellow at the Urban Institute with an extensive body of research on issues related to nonprofit hospitals to his credit, to design and undertake a study. The enclosed article reports his findings that question the current "usefulness of Schedule H, particularly with regard to systems."



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Gray conducted in-depth interviews with 12 hospital systems. Using the information he acquired, he developed an Internet survey for 210 systems composed of three or more nonprofit hospitals.

Gray's findings include a description of the important role hospital systems play in community benefit activities undertaken by their constituent hospitals:

- Systems may convey expectations to hospitals regarding community benefit and standardize important aspects, such as charity care policies, planning or budgeting ... and data collection and reporting;
- Systems may create a 'community benefit culture' by raising the visibility of the issue through activities such as awards programs and by establishing mechanisms for sharing ideas; and
- Systems provide technical expertise for hospitals regarding such matters as legal requirements, needs assessments, planning, evaluations and reporting.

Despite the benefits conveyed by systems, Gray found that Schedule H, as currently configured, would pose significant problems for them:

The [Schedule H] reporting requirements will result in some systems reporting on a single Schedule H form, and other systems reporting on seemingly unconnected ... forms. Cross-subsidies among hospitals within systems will not necessarily be captured on the form, resulting in a distorted picture of community benefit spending. The requirement that expenses for entities other than hospitals be included in the schedule will probably skew downward the amount of reporting community benefit.

As a result, Gray concludes as follows: *"The initial Schedule H filings will be disappointing to those hoping for a reliable tool to accurately capture and compare community benefits."*

Because this is the first year for required Schedule H filings, we are anxious to discuss the study and to share ideas with the Service about how Schedule H could be improved to address these flaws. It is important that Schedule H be viewed by the public, policymakers and the hospital field as a reliable tool to capture community benefit. We believe that flaws described in the study can be remedied to improve its reliability and, hence, public confidence in it as a more accurate reporting tool on community benefit.

Thank you for your attention to this important issue. For more information, please contact me at mhatton@aha.org or (202) 626-2336.

Sincerely,

Melinda Reid Hatton
Senior Vice President and General Counsel

Enclosure