

## **Lack of Transparency for New Mexico's Not-For-Profit Hospitals Cost Taxpayers Dearly**

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### **Executive Summary**

Recent plans by the University of New Mexico Hospital (UNMH) to build a \$146 million adult care facility, if not stopped, will continue UNMH's drift beyond its roots of indigent and Indian health care toward becoming a boutique hospital geared toward health care for the affluent. Other questionable expansions beyond their core mission by UNMH include \$233 million for the Barbara and Bill Richardson Pavilion; \$143 million for UNMH Sandoval; and \$90 million for the Cancer Center.

In total, the five hospital major hospital systems in New Mexico accounted for 41 percent of all revenue earned by not-for-profits (\$3.2 billion out of a total of \$7.8 billion) in New Mexico. As such, UNMH and other not-for-profit hospitals should be subject to greater oversight and transparency in order to account for the hundreds of millions of hard-earned taxpayer dollars given in tax exemptions and government subsidies. Of course, this begs the question as to whether or not taxpayer money set aside for indigent and Indian health care is being used to finance this rapid pace of expansion.

For instance, UNMH receives approximately \$100 million in subsidies for indigent care from a 6.4 mill (\$6.4 dollars per \$1,000 of taxable property value) levy on the Bernalillo county property tax and gross receipts tax. Additionally, UNMH benefits from numerous tax exemptions such as: local property taxes, federal and state income taxes, access to the tax-exempt bond market, and its donors also enjoy the charitable income tax deduction.

Other states are already taking notice of the aggressive expansion of not-for-profit hospitals. For example, last year the New Hampshire Legislature debated a bill, HB 1482, that would have limited the property tax exemption for not-for-profit hospitals to only their main campus. Under the proposed bill, satellite facilities, whether built or acquired, would no longer automatically fall under the hospital's not-for-profit umbrella.

Of course, economic theory predicts this type of behavior by not-for-profit hospitals since the tax exemptions and subsidies encourage "vertical integration" with other health care providers—even providers of tangential services beyond charity care. As a consequence, for-profit health care providers are "crowded-out" of the marketplace by not-for-profit health care providers.

This impact is particularly devastating to local communities when high-value taxable property is permanently removed from the tax rolls. For instance, of the five most populous counties, Bernalillo county taxpayers are bearing the highest property tax burden. This is due not only to

the additional mill levy for indigent care, but also to the crowding-out of for-profit activities which narrows the tax base and increases the tax burden.

In the short-run, New Mexico policymakers should oppose the \$146 million adult care facility, at least until a clear accounting has been made for how it is to be funded, what markets it is to serve, and whether this fits with UNMH's mission. Once that is accomplished, it is imperative that efforts be made to rein in the scope of tax exemptions through geographic limits similar to HB 1482 that was debated in New Hampshire and consider decoupling Indian health care from the not-for-profit, health care providers and instead tying this care and the dollars that go with it directly to the patient. This would provide the greatest transparency in assuring that publicly-provided dollars for health care are being spent effectively.

### **Not-for-Profit Hospitals are Big Business**

New Mexico's not-for-profits are a large and growing part of the economy. According to data from The John Hopkins Center for Civil Society Studies, not-for-profits employ 48,000 people in New Mexico. To put that into perspective, that is 165 percent of the employment in the manufacturing sector (48,000 versus 29,000, respectively).<sup>1</sup>

More specifically, New Mexico's not-for-profits are dominated by the state's hospital system. In fact, according to data from the Internal Revenue Service, the five largest not-for-profits are hospital systems.<sup>2</sup> Overall, as shown in Chart 1, these five hospital systems accounted for 41 percent of all revenue earned by not-for-profits (\$3.2 billion out of a total of \$7.8 billion).<sup>3 4</sup>

This data shows that New Mexico's not-for-profit hospital system is big business. Yet, by virtue of being a not-for-profit, these hospitals are showered with tax exemptions and subsidies that are not given to equivalent for-profit businesses. While some of these perks may be justified, such as for indigent or Indian care, there is no process in place to assure that the public is getting value for their money.

The dramatic shift in New Mexico's economy from goods-producing, for-profit manufacturing to service-providing, not-for-profit hospitals has not only economic consequences, but also political ones as well. Economically, for-profit industries pay taxes while not-for-profits generally do not pay taxes which hollow out the tax base.<sup>5</sup> This creates a growing political challenge to assure that there is adequate transparency in not-for-profits operations.

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<sup>1</sup> Geller, Stephanie L., Salamon, Lester M., and Sokolowski, S., "Holding the Fort: Nonprofit Employment During a Decade of Turmoil," The Johns Hopkins Center for Civil Society, Nonprofit Employment Bulletin No. 39, January 2012. [http://ccss.jhu.edu/wp-content/uploads/downloads/2012/01/NED\\_National\\_2012.pdf](http://ccss.jhu.edu/wp-content/uploads/downloads/2012/01/NED_National_2012.pdf)

<sup>2</sup> The IRS data comes from their "Exempt Organizations Business Master File Extract." The file contains data from the most recent filings with the IRS, generally for 2011 but older in some cases. The data can be found here: <http://www.irs.gov/taxstats/charitablestats/article/0,,id=97186,00.html>

<sup>3</sup> The IRS data does not include the UNMH system because it is affiliated with the state-supported UNM system. For purposes of this study, the UNMH system was included based on data from the most recent UNM Consolidated Financial Report: <http://regents.unm.edu/meetings/documents/2012/finance-report-2012-10-01.pdf>

<sup>4</sup> The five not-for-profit hospital systems are: Presbyterian Healthcare Services, UNMH, St. Vincent Hospital, San Juan Regional Medical Center Inc., and Otero County Hospital Association.

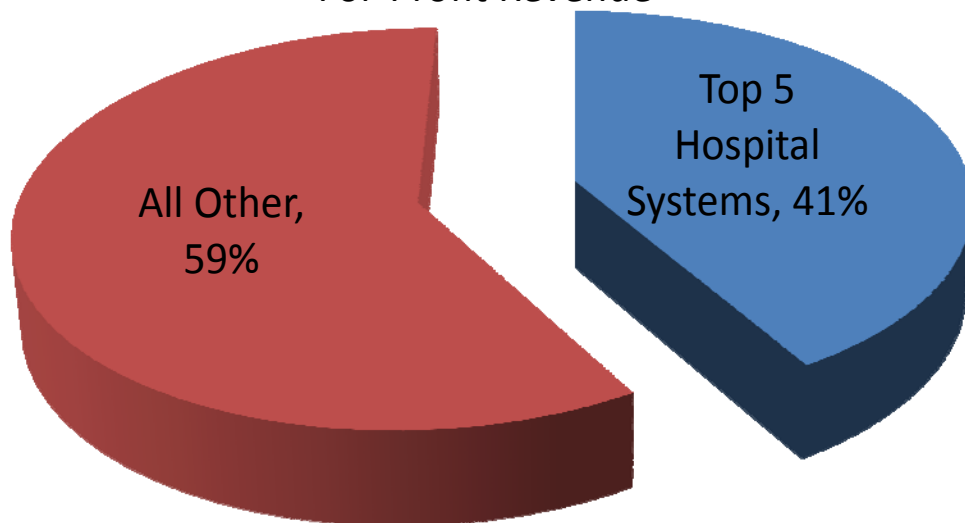
<sup>5</sup> Some not-for-profits make "payments in lieu of taxes" or PILOTs. However, PILOTs have been found to be an inadequate method of taxation for not-for-profits. A recent study found: "However, PILOTs are often haphazard, secretive, and calculated in an ad hoc manner that results in widely varying payments among similar nonprofits." See: Kenyon, Daphne and Langley, Adam H., "Payments in Lieu of Taxes: Balancing Municipal and Nonprofit

## The Need for Not-For-Profit Hospital Transparency

The first need for hospital transparency stems from the numerous tax exemptions that are given to not-for-profits. A study published by the prestigious National Bureau of Economic Research estimated the full value of these numerous tax exemptions and found that:

“. . . NFP [not-for-profit] hospitals receive substantial benefits from reduced capital taxes. For 1995, the aggregate value of the exemption from federal and state income taxes is \$4.6 billion

Chart 1  
Top 5 Hospital Systems Equate to 41 Percent of All Not-For-Profit Revenue



Source: Internal Revenue Service, The University of New Mexico, and Rio Grande Foundation

and the aggregate property tax exemption is \$1.7 billion . . . We estimate that the aggregate benefits of the access to tax-exempt bond markets are \$354 million per year and that donors received \$1.1 billion of tax benefits from contributing to NFP hospitals.”<sup>6</sup>

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Interests,” Lincoln Institute of Land Policy, Policy Focus Report, 2010.

<http://www.lincolnst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/PILOTs%20PFR%20final.pdf>

<sup>6</sup> Gentry, William M. and Penrod, John R., “The Tax Benefits of Not-for-Profit Hospitals,” as published in Cutler, David M., “The Changing Hospital Industry: Comparing For-Profit and Not-for-Profit Institutions,” University of Chicago Press, January 2000. <http://www.nber.org/chapters/c6769.pdf>

Keep in mind that these tax costs were estimated for the mid-1990s and are surely much larger today. Also, the authors do not calculate the “dynamic” costs to the economy stemming from all other taxpayers having to face higher tax rates due to the tax exemptions for not-for-profits. In other words, the not-for-profit sector crowds-out the for-profit sector.

The second need for hospital transparency stems from the subsidies that many hospitals in New Mexico receive. As shown in Table 1, numerous hospitals in New Mexico received support for operating and debt-service that totaled more than \$142 million in tax year 2009. By far, the largest recipient of this property tax support was University of New Mexico Hospitals (UNMH) system at \$92 million—or 64.4 percent of the total.<sup>7</sup>

The UNMH property tax support comes from a 6.4 mill (\$6.4 dollars per \$1,000 of taxable property value) levy on the county property tax. This property tax support has been in existence since 1954 and has been renewed every eight years by voters. Its original intent was to provide money to UNMH in support of indigent care and Native Americans. Other counties are also allowed to collect a mill levy, but at a lower mill rate of 4.25.

As a consequence, as shown in Table 2, Bernalillo county taxpayers now bear the higher property tax burden when compared to the other five most populous counties in New Mexico.<sup>8</sup>

Table 1 Property Tax Support for Hospitals Tax Year 2009		
Hospital/(County)	Property Tax Support	Percent
<i>For Operating Purposes:</i>		
University of New Mexico Hospitals (Bernalillo)	91,660,700	64.4%
Cibola General Hospital (Cibola)	1,151,797	0.8%
Cibola General Hospital (Colfax)	1,756,766	1.2%
DeBaca General Hospital	214,755	0.2%
Artesia General Hospital (Eddy)	4,837,749	3.4%
Guadalupe General Hospital	451,153	0.3%
Nor-Lea Hospital (Lea)	4,449,706	3.1%
Jal Hospital (Lea)	697,043	0.5%
Eunice Hospital (Lea)	1,707,261	1.2%
Lincoln County Medical Center (Lincoln)	1,958,464	1.4%
Rural Clinics (Lincoln)	587,397	0.4%
Rehoboth Christian Hospital (McKinley)	1,475,111	1.0%
Rio Arriba County Hospital (Rio Arriba)	8,876,681	6.2%
Contracting Hospitals (Sandoval)	14,231,029	10.0%
Sierra County Hospital (Sierra)	518,119	0.4%
Socorro General Hospital (Socorro)	987,919	0.7%
Union County General Hospital (Union)	665,052	0.5%
Valencia County Hospital (Valencia)	3,188,020	2.2%
Subtotal	139,414,722	97.9%
<i>For Debt-Service Purposes:</i>		
Artesia General Hospital (Eddy)	2,941,309	2.1%
Subtotal	2,941,309	2.1%
Grand Total	142,356,031	100.0%
Source: New Mexico Taxation and Revenue Department and Rio Grande Foundation		

<sup>7</sup> “2009 Property Tax Facts,” New Mexico Taxation & Revenue Department, Property Tax Division/Tax Research Office, March 2010. [http://www.tax.newmexico.gov/SiteCollectionDocuments/Tax-Library/Economic-and-Statistical-Information/Property-Taxes/09%20Property%20Tax%20Facts%207\\_29\\_2010.pdf](http://www.tax.newmexico.gov/SiteCollectionDocuments/Tax-Library/Economic-and-Statistical-Information/Property-Taxes/09%20Property%20Tax%20Facts%207_29_2010.pdf)

This is due not only to the additional mill levy for indigent care, but also to the crowding-out of for-profit activities which narrows the tax base and increases the tax burden.

Additionally, UNMH receives another \$9.9 million from the Bernalillo county gross receipts tax.<sup>9</sup>

### **New Hampshire Tries to Limit Property Tax Exemption for Not-For-Profit Hospital Expansions**

Of course, it isn't just New Mexico that is facing the problem of aggressive expansion by not-for-profit hospitals. Last year, the New Hampshire legislature debated a bill (HB 1482) that would have limited tax exempt activities to a hospital's main campus. Rep. John A. Burt testified in support of HB 1482 that:

“This bill would put all twenty-two of said hospitals on equal footing when it comes to developing their real estate portfolio. The bill is designed to ensure our “non-profit” hospitals who can somehow afford to build \$100,000,000 satellite facilities from “retained earnings” under guise of tax-exempt status, cannot do so without first having to come to some agreement with the town or municipality they would be depriving of tax dollars.”<sup>10</sup>

Policymakers need to be vigilant about the potential for not-for-profit hospitals to creep into for-profit medical services through the aggressive use of their tax-exempt status. Over time, this tax advantage will result in an over-population of not-for-profits which is bad for the economy and state and local coffers.

### **Recent Not-For-Profit Hospital Expansions Are Not Focused on Charity Care**

When the tax exemptions and subsidies for New Mexico's hospitals were put into place, these hospitals were much smaller and more focused on charity care. In fact, the original charter for UNMH included the provision that it have “100 beds so reserved for Indian use.”<sup>11</sup> Today, New

County	Median Property Tax	Median Home Value	Property Tax Burden
Bernalillo County	\$1,611	\$194,900	0.83%
Doña Ana County	\$836	\$146,800	0.57%
Santa Fe County	\$1,217	\$296,500	0.41%
Sandoval County	\$1,338	\$187,600	0.71%
San Juan County	\$656	\$156,200	0.42%
Source: Tax Foundation			

<sup>8</sup> Median Effective Property Tax Rates by County, Ranked by Taxes as a Percentage of Home Value, 3-Year Average, 2008-2010, Tax Foundation, July 27, 2012. [http://taxfoundation.org/article ns/median-effective-property-tax-rates-county-ranked-taxes-percentage-home-value-3-year-average-2008](http://taxfoundation.org/article/ns/median-effective-property-tax-rates-county-ranked-taxes-percentage-home-value-3-year-average-2008)

<sup>9</sup> See Bernalillo County Budget Book 2011-2012: [http://www.bernco.gov/upload/images/budget/budget\\_2011\\_2012/financials.pdf](http://www.bernco.gov/upload/images/budget/budget_2011_2012/financials.pdf)

<sup>10</sup> House Record, Second Year of the 162<sup>nd</sup> General Court, Calendar and Journal of the 2012 Session, Friday, March 9, 2012. [http://www.gencourt.state.nh.us/house/caljournals/calendars/2012/houcal2012\\_19.html](http://www.gencourt.state.nh.us/house/caljournals/calendars/2012/houcal2012_19.html)

<sup>11</sup> GAP analysis of the University's and UNM Hospitals' Performance of Federal Contracts, Amendments, and Consents, January 20, 2009, p. 3. [http://hospitals.unm.edu/1952\\_fed\\_contract/gap\\_analysis.pdf](http://hospitals.unm.edu/1952_fed_contract/gap_analysis.pdf)

Mexico's hospitals are big business and provide a diverse array of services beyond indigent and Indian medical care.

For instance, in recent years there have been a number of new or planned hospitals in the greater Albuquerque metro area. UNMH opened the \$143 million Sandoval Regional Medical Center in Rio Rancho that will include such specialties as "family and internal medicine, radiology, pathology, anesthesiology, orthopedics, gynecology, urology, rheumatology, cardiology, pulmonology, and general surgery."<sup>12</sup> At the same time, Presbyterian Healthcare Services just opened their \$190 million Rust Medical Center in Rio Rancho.

Additionally, UNMH is breaking ground on a \$146 million adult-care hospital and office building on its main campus in downtown Albuquerque. The hospital "will include radiology and lab services, a pharmacy, respiratory therapy and short- and long-term acute care" while the office building "will include eye and cardiovascular clinics."<sup>13</sup> More troubling, the financing of this new hospital is not clear. The UNM Health Sciences Center Capital Initiative Fund is, at least as of the most recently-available audit, insufficient – containing according to recent audits just \$67 million.<sup>1</sup>

This issue begs the questions as to whether or not taxpayer dollars are being used to finance this hospital, and why taxpayer dollars and a tax-exemption that has little to do with indigent or Indian health care should be employed in the financing of this hospital.

The lack of transparency associated with the UNM Health Sciences Center Capital Initiative Fund is the biggest single issue in terms of transparency in this particular project, but it is just one of many questions that each and every not-for-profit, taxpayer-subsidized health care facility must answer. Others might include:

- What market will this new initiative serve?
- Why is that market currently not being served by existing providers?
- Are scarce taxpayer dollars necessary to solve this problem and where specifically are state dollars being spent?
- How will policy and marketplace changes in health care impact this investment?

To be sure, some of these medical services will be utilized by indigent and Indian patients. Yet, it is unclear that all of these medical services must be warehoused under a hospital's not-for-profit umbrella. Doing so encourages these not-for-profit hospitals to over-invest since they are not subject to the taxes that a for-profit hospital would have to pay. Did Rio Rancho really need two

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<sup>12</sup> Nathanson, Rick, "Dual Roles," Albuquerque Journal, July 1, 2012.  
<http://www.abqjournal.com/main/2012/07/01/news/dual-roles.html>

<sup>13</sup> Galvan, Astrid, "UNM to Build Adult-Care Hospital," Albuquerque Journal, June 12, 2012.  
<http://www.abqjournal.com/main/2012/06/12/news/unm-to-build-adultcare-hospital.html>

<sup>14</sup> Moss-Adams, LLP, "UNM Hospital, University of New Mexico Health Sciences Center Clinical Operations," June 30, 2011 and 2010.

new hospitals? Does UNMH really need yet another new hospital and office building? These are very important questions well worth asking since taxpayers are footing a significant part of the bill.

### **Conclusion: Putting the Brakes on New Mexico's Not-For-Profit Hospitals**

The time has come to inject some much needed transparency into the tax exemptions and subsidies received by these not-for-profit hospitals—of which the top 5 hospital systems account for 41 percent of all not-for-profit revenue in New Mexico.

In the short-run, New Mexico policymakers should enact limits on the amount of assets that can fall under a hospital's not-for-profit umbrella—similar to the HB 1482 debated in New Hampshire. This would curtail the aggressive expansion by not-for-profit hospitals like UNMH into health care services that are not related to indigent and Indian care.

In the long-run, rather than just giving one-size-fits all tax exemptions and subsidies to not-for-profit health care providers, these public monies could be tied to indigent and Indian patients directly. This would allow for patients to determine the best provider for their medical needs and allow for better tracking of patient outcomes to discover whether or not the health care provided is truly helping indigent and Indian patients.

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