

Texas set to scrutinize nonprofit hospitals' costs, spending

According to an article in the Fort Worth Star Telegram, an information crackdown may be in store for nonprofit hospitals, with the state and the IRS examining everything from the amount of free care they provide to executives' big paychecks. The goal: to determine the true value of uncompensated care that hospitals provide.

A work group appointed by Texas legislators has devised a standard way of defining and calculating the cost of charity care — and already has drawn the ire of the hospital lobby.

While the work group's proposal doesn't call for nonprofit hospitals to increase charity care to justify their tax-exempt status, state Sen. Jane Nelson, R- Flower Mound, says she wants hospitals to submit audited data about the care they provide and the way state and federal indigent-care reimbursement funds are spent. That could be seen as a prelude to changes in distribution of the money.

The IRS, too, is beefing up requirements for nonprofit hospitals to report the cost of charity care they provide. The IRS is also reviewing a 1969 ruling requiring nonprofit hospitals to provide a benefit to the community. The exact nature of that benefit is loosely defined; in the eyes of some critics, there's no standard at all.

Frank Sommerville, a certified public accountant and tax attorney based in Weycer, Kaplan, Pulaski & Zuber, P.C.'s Arlington office, said Texas already has a community benefit standard — one an IRS official recently said was broader than the federal one. "I think [the IRS requirement] is going to have less of an impact on Texas hospitals than it will on other states," Sommerville said.

But Texas hospitals could be affected by the IRS' scrutiny of executive compensation.

In a recent speech to the Texas attorney general's office, Steven Miller, IRS commissioner of tax-exempt and government entities, gave a glimpse of findings in a 2006 survey of hospital executives' pay. "Compensation was pretty high and, while permissible under current law, I wonder how it will be received in the court of public opinion," he said.

For instance, Arlington-based Texas Health Resources' 39 top executives earned \$12.9 million in 2006, not including benefits or expense allowances, according to tax documents. The nonprofit chain owns Harris Methodist Fort Worth Hospital and 12 other Metroplex hospitals, a spokesman said.

The top executive salary at THR was \$1,501,667. At Dallas-based Baylor Health Care System, the top executive salary was \$1,175,459, according to 2006 IRS forms.

"We've heard that over and over from a number of sources that hospitals are generous in their compensation packages, and the IRS has some concerns about that," Sommerville said.