



Leading for Better Health

Testimony of The Hospital and Healthsystem Association of Pennsylvania

For the

Philadelphia City Council Committee on Children and Youth

Submitted by

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Good afternoon Chair Gym, Vice Chair Thomas, and members of the Committee on Children and Youth. Thank you for the opportunity to provide testimony on the proposal to implement a Payment in Lieu of Taxes or PILOT program in the city of Philadelphia.

I am Jolene Calla, vice president of health care finance and insurance for the Hospital and Healthsystem Association of Pennsylvania (HAP).

HAP is a statewide association, representing approximately 240 member organizations across the commonwealth, advocating for health care policy that best serves the health and well-being of the patients and communities that our members serve.

HAP also has a Southeast Pennsylvania Advisory Board to address issues arising in that region.

It is on behalf of those members within the city of Philadelphia, that I am here to testify about the importance of preserving tax-exempt status for hospitals, some community work that hospitals are currently doing, the economic realities of keeping the doors of hospitals open, and the harmful effects of imposing a mandatory PILOT on community initiatives.

Hospital Community Contributions

First, let us acknowledge that removing environmental hazards in Philadelphia schools is a laudable and important goal, and, that the hospital community is committed to pursuing health equity for all patients.

However, looking to the hospital community to address the financial shortfall is not the answer.



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Despite having the highest poverty rate among America’s largest cities, Philadelphia does not have a public or county-funded hospital system. Private, not-for-profit hospitals fill that need.

Hospitals are mission driven organizations whose top priority is providing high quality care for all patients, 24 hours a day, 7 days a week, 365 days a year, regardless of where they live, what their health status is, or if they can pay for care.

They are committed to care inside and outside of the hospital walls – and have been active partners in keeping people safe, healthy and alive throughout the pandemic.

A mandatory PILOT diverts funds away from many clinical services that hospitals operate at a financial loss, which would otherwise become the responsibility of government or another tax-exempt entity.

Examples of such services include: neonatal intensive care, addiction services, psychiatric care, emergency and trauma, and special clinics to serve low-income communities.

PILOTs also divert funds from the local workforce and development programs, innovative programs to address housing issues, and a myriad of other meaningful community projects and services that hospitals currently support to benefit the most vulnerable local residents.

Hospital Focus on Community Needs

Each year, tax-exempt hospitals are required to demonstrate accountability to the communities they serve by reporting to Internal Revenue Service (IRS) on the benefits they provide to their community using the IRS Form 990, Schedule H, and they must make it publicly available.

Based on those filings, in 2017, hospitals provided approximately \$1 billion dollars in community benefit to Philadelphia residents.

Hospitals are also economic drivers of their communities. In fiscal year 2019, Philadelphia hospitals directly employed 51,948 people, and indirectly supported another 60,867 city jobs. They also contributed \$25.8 billion in spending to local economies.

Despite varying degrees of financial challenges, hospitals remain committed to being anchor institutions in Philadelphia communities, and through the years they have demonstrated support for the city by fulfilling community needs in numerous ways.

The COVID-19 pandemic has had a disproportionate impact on economically disadvantaged and minority communities in Philadelphia. In an effort to address this disparity in care for vulnerable



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populations, hospitals are working to expand testing and vaccination efforts in Philadelphia's hardest hit communities.

They are collaborating with community stakeholders to vaccinate local residents throughout the city.

As we speak, hospitals are setting up and staffing community vaccine clinics, on a volunteer basis, in places of worship, recreation centers, schools and other locations to ensure that the most vulnerable Philadelphians have access to the COVID-19 vaccine.

In addition to that highly visible community support, I'd like to take a moment to highlight just two other examples of community projects that you may not be aware of.

These projects are part of what is called the COACH initiative. COACH stands for *Collaborative Opportunities to Advance Community Health*.

This initiative, launched in 2015 and funded by the hospital community, brings 18 local hospitals and 16 public health, community and insurer partners together to identify and address specific local community health needs. Two current areas of focus are on food insecurity and trauma informed care.

The first project is food insecurity, which is defined as the lack of consistent access to sufficient nutritious food necessary to lead a healthy life.

Nationally, 12.7% of households are affected by food insecurity. In Philadelphia, 21.7% of residents are affected.

Philadelphia hospitals are leading efforts to address this need. They have collaborated to develop a screening tool that is now used in clinical settings to connect patients who need healthy food to resources and programs that can supply it on a consistent basis.

Improving access to healthy food is an effective way to help at-risk patients and families prevent or better manage chronic disease and improve their overall quality of life.

With the economic downturn resulting from the Coronavirus national public health emergency, more and more people in Philadelphia are relying on this help to meet one of their basic needs.

The second project focuses on treating trauma. Trauma results from experiencing events that are harmful or life-threatening, which overwhelm a person's ability to cope over time. These experiences cause lasting negative effects on physical, mental, and developmental well-being.

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A large body of research, including critically important studies on Adverse Childhood Experiences, show that early trauma can affect people's health and wellness later in life.

A significant number of children and residents of Philadelphia experience some form of trauma in their daily lives. COACH participants focused on creating a culture of healing, starting with specific supports within the hospital walls and then extending into Philadelphia communities to meet people where they are.

In addition to the focus on trauma, hospitals are active in the issue of gun violence – from offering preventive services to providing supports for victims and their families. They are active in both research and advocacy to help make Philadelphia streets safer.

PILOTS would take away funding that is currently used to support these and many other important community programs.

Philadelphia Hospital Payor Mix – Medicaid Shortfall

It is important to understand who the local hospitals are treating and where the payment for that care is coming from. This is often referred to as payor-mix.

There are three streams of payment for hospitals: commercial, or private insurance, Medicare and Medicaid.

In Philadelphia, government payers (Medicare and Medicaid) make up about 50% of the payor mix from a payment perspective. This percentage is comparable to the state as a whole, however, when you look closer, Philadelphia hospitals have a higher percentage of Medicaid patients (23%) versus the state average (15%).

A 2019 report from the nationally recognized research firm Dobson DaVanzo confirmed that Pennsylvania Medicaid pays only 81 cents on the dollar for care of these patients. In short, hospitals lose money each time they treat a Medicaid patient, and in Philadelphia this issue is even more acute.

The on-going treatment costs and shortfall in Medicaid payments that are absorbed by Philadelphia hospitals must be taken into account as PILOTS are contemplated.

The Impact of the Coronavirus Pandemic on Hospitals

Finally, Philadelphia hospitals are on the frontlines of the Coronavirus battle. They have been negatively affected by the stoppage of elective services for a period of time, the greater volume and increased cost of personal protective equipment (PPE) and higher labor costs.

Even with significant federal provider relief funding, hospitals in Philadelphia are facing revenue

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shortfalls in amounts that jeopardize continuation of business at pre-pandemic levels.

In the summer of 2020, HAP commissioned national research firm Health Management Associates (HMA) to do a report on the impact of COVID-19 on hospitals in Pennsylvania. HMA found that:

- Patient volume plummeted and will remain well below pre-pandemic levels. Inpatient discharges are estimated to be 5 percent below, and emergency room visits and surgeries 13 percent below, historical levels for the second half of the year
- Across the state, hospitals and health systems incurred significant financial shortfalls, well in excess of federal relief payments. Between mid-March through July, hospitals incurred an estimated operating margin shortfall \$5 billion below expected results—a 24 percent drop from pre-pandemic revenues. These losses significantly exceed the estimated federal relief funding received to date, and losses are expected to continue through 2020 and beyond
- The ongoing health crisis presents substantial challenges on many fronts, including concerns about workforce stability, the impact of a weakened economy on hospital finances and payor mix, and the potential for other surges
- Investment in facilities, equipment, and technology is being deferred. Large operating margin shortfalls threaten some hospitals' ability to maintain facilities and infrastructure and invest in the equipment and technologies necessary to provide effective, high-quality care
- The long-term viability of some hospitals is threatened. During fiscal year 2019, 34 percent of Pennsylvania general acute care hospitals operated with negative margins. Further financial shortfalls resulting from COVID-19 could affect their ability to serve their communities and could jeopardize their future existence

Mandating PILOTs in the midst of a national public health emergency will only exacerbate some precarious financial positions, which will ultimately affect Philadelphia families in numerous negative ways.

Summary

For all the reasons previously mentioned, and on behalf of Pennsylvania hospitals, HAP strongly opposes the imposition of a mandatory PILOT.

Thank you for the opportunity to be here today.