

Hospital Accountability Project

Northside Hospital

A project of nonprofit consumer advocacy group Georgia Watch, the Hospital Accountability Project examines the financial practices of nonprofit and for-profit hospitals in the state, with a focus on health care affordability for self-pay, uninsured and underinsured patients.

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EXECUTIVE SUMMARY

When it comes to crucial health care decisions, consumers are consistently denied the fundamental options and choices that are available in other consumer-driven industries.

While there are many different causes for this lack of consumer control, one major factor is the absence of straightforward and clear information. For health care consumers, details on the most basic information – such as pricing and financial assistance eligibility – are scarce.

Compounding the problem for consumers is the complexity of health care treatment, and the increasingly prevalent role of insurance providers in all aspects of the health care industry. The complications of the current health care system create opportunities for hospitals to distort and disguise the true amount of revenue they accrue each year.

According to American Hospital Data recently analyzed by the *Wall Street Journal*, the combined net income of the country's 50 largest tax-exempt nonprofit hospitals spiked almost eight-fold to \$4.27 billion between 2001 and 2006.ⁱ According to that same data, tax-exempt nonprofit hospitals are often more profitable than their for-profit counterparts; 77 percent of the country's nonprofits are in the black, while only 61 percent of for-profit hospitals are profitable.

By definition, tax-exempt nonprofit hospitals do not pay most taxes, including sales, income or property taxes. Tax exemptions are one of many forms of subsidization by state and local governments for which nonprofit hospitals are obligated to provide accessible and affordable health care to medically uninsured and indigent patients, regardless of ability to pay.

However, a financial examination of some Georgia tax-exempt nonprofit hospitals reveals sizeable sums of cash on hand, million-dollar compensation packages to high-level hospital executives, and only the bare minimum of expenditures on health services for uninsured and indigent patients.

Generally speaking, tax-exempt nonprofit hospitals – including Northside Hospital – charge uninsured patients significantly higher costs for services than average payments received from most third party payers, such as private insurance, Medicare and Medicaid. Approximately one in every ten Northside Hospital patients is billed marked-up, inflated charges.

Northside Hospital also invests heavily outside Fulton County, from which they have received taxpayer support for more than 15 years. Of a total \$423.4 million in approved and proposed capital expenditures, approximately two-thirds, or \$285 million, has been spent or will be spent on expansions at a Northside facility in Forsyth County.

In 2005 filings with the Internal Revenue Service and the US Centers for Medicare and Medicaid Services, Northside Hospital reported:

- Only 25 percent of Northside Hospital's patients came from Fulton County, the lowest number of in-county patients served by any Fulton County tax-exempt nonprofit hospital.ⁱⁱ

- A 297 percent overall price mark-up – from approximately \$439,309,863 in costs to \$1,304,700,247 in patient charges.ⁱⁱⁱ
- A 3,060 percent mark-up in anesthesiology services – from \$463,061 in total costs to \$14,167,361 in patient charges.^{iv}
- A total 3.25 percent of annual adjusted gross revenue dedicated to indigent and charity care – compared to 10.98 percent provided by the other Fulton County Hospital Authority facility, Grady Memorial Hospital.^v

Policy Recommendations:

Level II trauma center: Northside Hospital should utilize surplus funds to open a Level II trauma center. Currently, there is only one other Level II trauma center at a nonprofit hospital in the 13-county metro Atlanta area. A Level II trauma center offers emergency care to trauma patients similar to that of a Level I trauma center, though it is not required to have the same research and surgical residency programs.

Affordability: Charges to patients should be fair and clearly explained at the time of admission to the hospital, as should financial assistance options. Information about financial assistance should be posted at all points of entry to the hospital, including the emergency department, intake office and billing areas, and should be in languages used by the patient population. Also, state lawmakers should act to extend tax-exempt status to free health care clinics.

Transparency: State lawmakers should enact definitions for the terms “indigent care,” “charity care” and “bad debt” that are based on cost instead of marked-up charges and inflated hospital pricing schedules.

Oversight: The state Department of Revenue should conduct annual audits and certifications of tax-exempt nonprofit entities in Georgia.

Assessments to evaluate real value of tax-exempt status: County taxing authorities should regularly assess the property holdings of tax-exempt nonprofit health care facilities to ensure the community is receiving a comparable benefit for its loss of property tax revenue.

INTRODUCTION

More than 80 percent of hospitals in Georgia operate as tax-exempt nonprofit organizations, including Memorial Health in Savannah, Phoebe Putney Memorial Hospital in Albany, the Medical Center of Central Georgia in Macon, and Northside Hospital in Atlanta. In recent years, most every major urban hospital in Georgia has become a tax-exempt nonprofit organization.

Although many were formed as hospital authority facilities, most tax-exempt nonprofit hospitals are now governed by private nonprofit boards, including DeKalb Medical Center, Henry Medical Center, Rockdale Hospital, WellStar Health System, Northside Hospital and, now, Grady Memorial Hospital.

Public hospital authorities cannot form joint ventures with doctors to deliver high-demand services, such as obstetrics or cardiology, which are financially fruitful. In contrast, a private nonprofit governing board is allowed to forge these lucrative partnerships.

Regardless of differences in governing structure, the common mission of all tax-exempt nonprofit hospitals is the commitment to providing care to all patients, regardless of their ability to pay. These facilities are typically subsidized by state and local governments to offer health services to medically uninsured and indigent patients, as established by the Hill-Burton Act of 1946. Though that law has expired, it helped set rules requiring facilities who receive federal funding and tax exemptions to provide a “reasonable volume” of free care each year.

For example, tax-exempt nonprofit hospitals do not pay most taxes, including sales, income or property taxes. Because of this, nonprofit hospitals don’t contribute to vital local infrastructure, such as road and sewer maintenance, or police and firefighter forces, even though they utilize these services.

Under IRS law^{vi}, a tax-exempt nonprofit hospital, classified as a 501(c) (3) charity, should:

- **Have a mission to provide community benefit:** This is crucial to receiving tax-exempt status, which allows a group to sidestep property, income and sales tax. Federal law requires tax-exempt organizations to have a clearly defined mission statement that commits the institution to its core charity.
- **Use profits for good:** As the word “nonprofit” suggests, the purpose of tax-exempt nonprofit hospitals is to provide health care, not to generate a profit. If they do generate a surplus, though, that surplus must be reinvested back into the hospital in a way that benefits the community, as required by both state and federal laws. Compensation for executives and others must be in accordance to fair market value.
- **Financial accountability:** No portion of net earnings goes to the benefit of any private shareholder or individual.^{vii} Money paid as compensation to executives and other employees should be fair and not excessive.
- **Remain accountable to the community:** According to IRS regulations, the organization's board of trustees must hold itself accountable to its community for maximizing the organization's contributions to the community.

- **No politicking:** A tax-exempt nonprofit organization is not allowed to participate in political campaigns for or against candidates, or lobby as a substantial part of their activities.

The Congressional Budget Office estimated nonprofit hospitals receive \$12.6 billion in annual tax exemptions, a figure that does not include the \$32 billion in federal, state and local tax breaks the hospital industry as a whole receives each year.^{viii} Tax-exempt nonprofit hospitals in the state also draw down funds from Georgia’s Indigent Care Trust Fund (ICTF). The purpose of the 18-year-old ICTF is to expand Medicaid eligibility and services, support rural health care facilities that serve the medically indigent, and fund primary health care programs for medically indigent Georgians.^{ix}

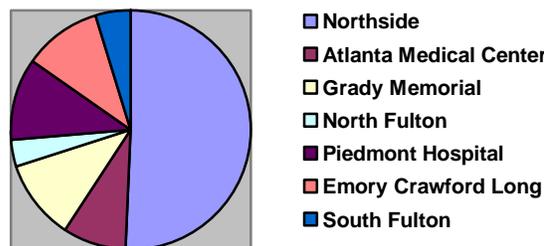
Changes proposed in 2007 by the US Centers for Medicare and Medicaid Services (CMS) call into question the future of the ICTF, which consists of state and federal Medicaid dollars. CMS has not made a final ruling on whether it will continue to participate in the program.

NORTHSIDE HOSPITAL

The Northside Hospital system is comprised of three tax-exempt nonprofit hospitals located in Fulton, Forsyth and Cherokee counties, with a total of 606 licensed beds. There are an additional 15 Northside Hospital-affiliated outpatient centers and medical office buildings throughout northern metro Atlanta. The system staffs nearly 1,800 physicians who treat approximately 600,000 patients each year.

The main Northside Hospital facility, located in Sandy Springs, delivers the bulk of obstetrics services in Fulton County. In fact, Northside Hospital is consistently ranked first in the nation among community hospitals for the number of children it delivers. Of the estimated 38,906 obstetrical admissions in Fulton County in 2005, approximately 50.5 percent were admitted to Northside Hospital. The remaining 49.5 percent of admissions were divided among the Atlanta Medical Center, Emory Crawford Long Hospital, Grady Memorial Hospital, North Fulton Regional Hospital, South Fulton Medical Center and Piedmont Hospital.^x

Total Number of Obstetrical Admissions in Fulton County



Nonprofit and for-profit subsidiaries

Northside Hospital owns and operates both Northside Hospital-Forsyth and Northside Hospital-Cherokee, which was purchased from the Hospital Authority of Cherokee County in 1998. Since then, Northside Hospital has loaned Northside Hospital-Cherokee tens of millions of dollars. As of 2006, Northside Hospital-Cherokee still owed approximately \$30,350,000.

In 2002, Northside Hospital purchased the 41-bed facility Baptist North, which is now named Northside Hospital-Forsyth, for \$121.5 million, which is just under \$3 million per bed. By comparison, DeKalb Medical Center built a brand-new, 100-bed facility for approximately \$65 million around the same time, which is approximately \$650,000 per bed.

At the time of purchase, Baptist North was only valued at \$18 million to 28 million. A large portion of the purchase price – approximately \$85,740,000 – was meant as “goodwill,” though it is still unclear who benefited from that goodwill. In many scenarios, goodwill is meant to recognize the earnings of a given facility, though Baptist North has traditionally not shown much profit and has actually lost money in recent years.

Other nonprofit holdings by Northside Hospital include:

- Northside Shares Help, which was organized exclusively to receive contributions from employees and affiliated organizations of Northside Hospital.
- Northside Hospital Foundation, which raises and distributes funds for Northside Hospital.
- Northside Health Services, which was formed to provide oversight and management services to the Northside Hospital system.
- Northside Hospital-Cherokee Auxiliary, which helps organize support services to the hospital and its patients.

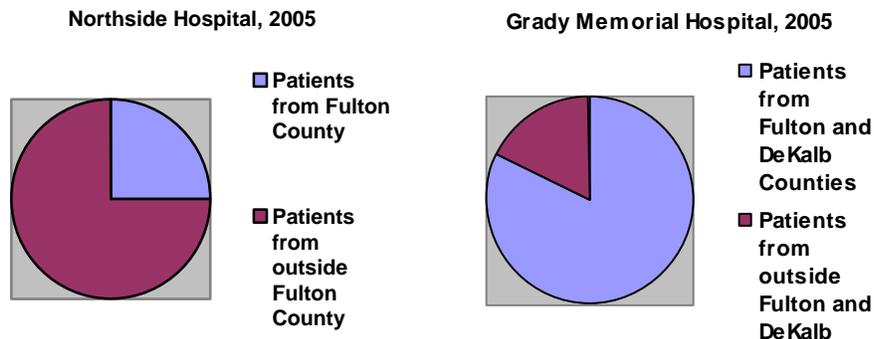
Northside Hospital also has a lease agreement with for-profit subsidiary Northside Ventures. In Fiscal Year 2006, Northside Hospital paid \$4,143,000 to Northside Ventures under this arrangement; \$4,225,000 was paid in 2005. Northside Hospital charged Northside Ventures \$136,000 in 2006 and \$194,000 in 2005 for administrative and management services. Other for-profit holdings by the Northside Hospital system include the Surgery Center of Georgia, LLC, and Surgicoe Real Estate, LLC, which owned by Northside Hospital-Cherokee through a joint venture with United Surgical Partners International, and the Cherokee Professional Health Services

Northside Hospital Patient Mix

Approximately 75 percent of Northside Hospital’s patients in 2005 came from outside Fulton County, according to documents filed that year with the Georgia Department of Community Health (DCH). By comparison, 82.1 percent of Grady Memorial Hospital’s patients were from Fulton and DeKalb counties, home counties of its hospital authority.^{xi}

Seventy-one percent of DeKalb Medical Center’s patients came from DeKalb County, while WellStar’s Paulding and Douglas patients also largely came from the hospitals’ home counties (74.8 percent and 73.6 percent, respectively).^{xii}

Approximately 75.9 percent of patients treated at Northside Hospital-Cherokee were from Cherokee County, and 53.8 percent of patients treated at Northside Hospital-Forsyth lived in Forsyth County.^{xiii}



Fulton County Hospital Authority

The Fulton County Hospital Authority is run by a board that consists of nine members who serve four-year terms. No member can serve more than five consecutive terms, or 20 years.

Operating largely behind the scenes, the Fulton County Hospital Authority acts as a transfer account for funds between the state and the Northside Hospital system, a union formed in 1991. The authority also owns a portion of Northside Hospital’s property, including the original Northside Hospital building, two medical office buildings and other undefined property. If the hospital takes on debt for construction or other ventures, the authority acts as the vehicle for picking up bonds.

Under the agreement between Northside Hospital and the authority, the hospital must provide unspecified levels of uncompensated care and pay a yearly rental fee that is used to fund medical education and other public health services. Rental expenses for Northside Hospital’s operating leases totaled \$1,729,000 in 2006 and \$1,608,000 in 2005.^{xiv}

There is no working relationship between the Fulton County Hospital Authority and the Fulton-DeKalb Hospital Authority, which operates Grady Memorial Hospital, despite the fact that both are county hospital authorities.

NORTHSIDE BY THE NUMBERS

Northside Hospital has enjoyed strong financial growth in recent years, having increased its system surplus nearly 40 percent between 2000 and 2005.

**Northside Hospital and Related Entities
As of September 30 Fiscal Year End**

Reported Net Income, Per IRS Form 990

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Northside Hospital*						
Total Revenue	\$393,042,932	424,426,687	455,607,332	526,168,300	603,930,966	636,642,674
Total Expense	\$383,513,441	414,530,495	444,235,343	520,127,315	588,779,962	611,674,092
Hospital Profit or (Loss)	\$9,529,491	9,896,192	11,371,989	6,040,985	15,151,004	24,968,582
Northside Cherokee						
Total Revenue	\$31,911,195	36,405,922	41,604,195	48,400,686	53,889,111	64,270,331
Total Expense	\$34,075,764	38,253,318	44,881,356	51,012,219	55,064,857	64,213,121
Hospital Profit or (Loss)	\$(2,164,569)	(1,847,396)	(3,277,161)	(2,611,533)	(1,175,746)	57,210
Combined Profit – Hosp. & Entities	<u>\$7,364,922</u>	<u>8,048,796</u>	<u>8,094,828</u>	<u>3,429,452</u>	<u>13,975,258</u>	<u>25,025,792</u>

*Which includes Northside Hospital-Forsyth.

Outside of patient care, Northside Hospital reported the following revenue streams in 2005:

- Parking -- \$1,419,601
- Cafeteria -- \$1,409,601
- Pharmacy -- \$5,000,545
- Day care -- \$744,122
- Rental -- \$11,595,524
- Miscellaneous -- \$9,829,645

It is unclear what items “miscellaneous” refers to. Smaller revenue amounts – vending machine revenue, information services revenue and power wellness revenue – were all itemized in 2005 and totaled \$33,688,572.^{xv}

Financial Losses

Northside Hospital has also suffered significant financial losses, although not directly related to the provision of indigent and charity care.

In November 2001, Northside Hospital-Cherokee sold a tract of land on Highway 92 in Cherokee County, valued at \$213,925, to Fifty-Thirty, LLC for only \$7,060. Land in that area is often valued in the hundreds of thousands.^{xvi}

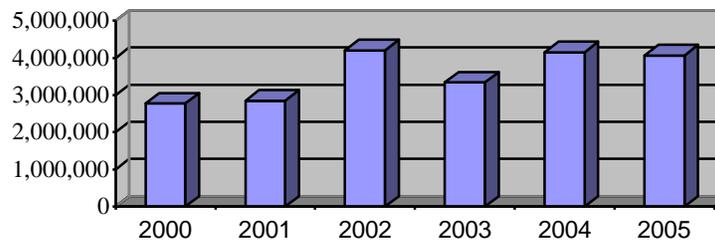
The Northside Hospital Foundation has given multiple grants to Northside Radiology Associates, the exclusive contractor for radiology services to the hospital since 1970. For Fiscal Years 2004 and 2005, Northside Radiology Associates received a total \$12,135.03.^{xvii}

The foundation also repeatedly reported considerable losses for two annual events – the Northside Ball and the Golf Classic – held to raise money for in-house groups such as the hospital’s cancer care program. For Fiscal Years 2000 through 2005, the Northside Ball lost a total \$1,041,782; the Golf Classic lost approximately \$407,964. The combined losses on special fundraising events from 2000 to 2005 were \$1,449,746.^{xviii}

Executive Compensation

Executive compensation at Northside Hospital is notable when compared to other tax-exempt nonprofit entities – even those that operate on a much larger scale.

**Total Executive Compensation:
Northside Hospital**



Despite a fairly consistent number of key employees, executive compensation at Northside Hospital has fluctuated in recent years, primarily because of inconsistencies in pay for some employees. For instance, between 2001 and 2003, total compensation paid to then-CEO Sidney Kirschner’s bounced from \$912,746 in 2001, to \$2,084,984 in 2002, to \$998,053 in 2003. By comparison, total compensation paid to Grady Memorial Hospital CEO Andrew Agnowabi was \$276,923 in 2003.^{xix}

Northside Hospital CEO Bob Quattrocchi’s compensation was \$1,528,061 during Fiscal Year 2005, according to IRS Form 990 filings. During that year, Quattrocchi was paid more than the top executives at the following nonprofits:

- Brian Gallagher, CEO of United Way America - \$638,505
- Edward A. Powell, CEO of USO - \$668,889
- James Maddy, former President of National Park Foundation - \$833,290
- M. Cass Wheeler, CEO of American Heart Association - \$926,467
- Wayne Lapierre, Executive V.P. of National Rifle Association - \$953,110

Quattrocchi earned a compensation package worth \$1,692,430 in 2006, including \$722,286 meant as a supplemental retirement plan.^{xx}

Northside Conflicts of Interests

At Northside Hospital, there were several conflicts of interest in the system's 2005 IRS Form 990 filings, including:

- Of the 68 total board members named in the filings, at least 15 currently work or were previously employed by Northside Hospital or one of its affiliates, including Northside Hospital's president and chief executive officer (Robert "Bob" Quattrocchi) and chief financial officer (Deborah Mitcham).
- J. Bancroft Lesesne is the chief medical officer for Georgia Cancer Specialists, which operates at Northside Hospital, Northside Hospital-Forsyth, and other facilities in the Atlanta area. Lesesne is the current president of the Georgia Society of Clinical Oncology, and is a former chief of staff at Northside Hospital. He sits on both the Northside Hospital-Cherokee and Northside Hospital boards.
- John B. Neeld, Jr., the chairman of Northside Hospital's Department of Anesthesiology, is a partner with Northside Anesthesiology Consultants, which operates out of at least three Northside locations. His wife Gail Neeld sits on the Northside Health Foundation board.
- Northside Hospital CEO Robert "Bob" Quattrocchi is treasurer for the Northside Hospital-Cherokee board and sits on the Northside Hospital Foundation board.
- Lawrence B. Stone, MD, is a principal of Atlanta Perinatal Consultants, which operates the Center for Perinatal Medicine at three Northside facilities – Atlanta, Alpharetta and Johns Creek. He is chairman of the board for Northside Hospital.
- Everett Bennett – namesake of the Everett and Teresa Bennett Education Center at Northside Hospital-Forsyth – is on the Northside Health Foundation Board of Directors.
- Northside Hospital-Cherokee board member L. Austin Flint owns an interest in Radiology Associates of North Georgia, which holds an exclusive contract to provide radiology services to the hospital. Flint also leased space to the hospital through another company, Woodstock Properties.
- In 1999, Northside Hospital-Cherokee purchased two imaging centers that operated as one company; the general partner and president of the centers sat on the hospital's board.

Also, in 2006 Northside Hospital settled a multimillion dollar suit with Medicare over allegations that the hospital and two physician-owned groups violated the False Claims Act due to improper financial and referral relationships. According to court documents, the Blood and Marrow

Transplant Group of Georgia, an affiliate of Northside Hospital, also owned Atlanta Blood Services, a clinical laboratory that supplies services and blood products to Northside Hospital.

The suit contended that Northside Hospital purchased platelet products from the Atlanta Blood Center at an inflated price and provided employees to the center at no charge. It was also alleged that the fees Northside Hospital paid to center physicians were far above market value. This, as well as the referral of patients by center physicians to Northside Hospital, violated rules established by CMS. Northside Hospital paid CMS \$5.7 million to settle the suit.

Alliances between hospitals

The Georgia Alliance of Community Hospitals (GACH) is a coalition of 55 tax-exempt nonprofit hospitals that advocates at the state legislature on behalf of its member facilities. GACH shares board members with Voluntary Hospital America Georgia (VHA Georgia), another trade organization for tax-exempt nonprofit hospitals that brokers discounts for its members.

VHA “shareholders” – a position purchased for an average \$20,000 – include Archbold Medical Center, Phoebe Putney Memorial Hospital, Gwinnett Health System, University Health (Augusta) and Piedmont Healthcare. These shareholders are considered stakeholders in the company and receive financial benefits from that arrangement. VHA “partners” also pay to be a part of VHA, though not as much as shareholders. Partners include Northside Hospital, DeKalb Medical Center, WellStar Health System, and a dozen other facilities.

Although incorporated as a nonprofit, VHA, along with several representatives of its member hospitals, owns and operates the for-profit entities Phoenix Health Care Management and HSI Financial, a collections agency for hospitals such as Northside Hospital, Piedmont Hospital, Gwinnett Hospital and WellStar Health System. HSI Financial’s board of directors includes leaders from the state’s tax-exempt nonprofit hospitals.

HSI Financial also is a “gold level corporate sponsor” of the Healthcare Financial Management Association (HFMA), which boasts leadership culled from many of the state’s nonprofit hospitals, including Northside Hospital, Gwinnett and Piedmont hospitals, Floyd Medical Center and the Georgia Hospital Association.

Northside Hospital Investments

Despite being formed using Fulton County-issued bonds, and obligated to the terms of its lease with the Fulton County Hospital Authority, Northside Hospital has consistently expanded its services and directed significant investment outside the county.

For example:

- Northside Hospital capital expenditures, both approved and proposed, are approximately \$423.4 million. Of that, two-thirds (\$285 million) has been spent or will be spent on expansion and bed additions at Northside Hospital-Forsyth, including an \$11 million 37-bed expansion in 2002 and a \$23 million emergency room expansion in 2003. Only 32

percent of Northside Hospital's capital expenditures will be spent at their Fulton County location;^{xxi}

- In 2002, Northside Hospital purchased the 41-bed Baptist North in Cumming for \$121.5 million. The average price per bed cost was nearly \$3 million – more than four times the per-bed price DeKalb Medical Center spent constructing its brand new 100-bed Hillendale hospital in 2002;
- Northside Hospital recently opened Northside/Dawsonville Imaging, an outpatient imaging center in Dawson County. The cost of this expansion was not immediately available; and,
- Citing convenience needs for doctors and patients, Northside Hospital is awaiting approval from state health officials to build a 75,000 square foot medical office building in central Cherokee County near I-575 on 6.26 acres of land the hospital already owns. Northside Hospital-Cherokee will provide outpatient support services to doctors who establish practices in the new building.

Northside Hospital has maintained a significant financial surplus while enjoying tremendous growth outside its home county. The vast majority of Northside Hospital patients are from *outside* Fulton County.

By comparison, Grady Memorial Hospital, the only other hospital authority facility in Fulton County, struggles to keep its doors open. Recent restructuring at the facility – most notably, a change in governance structure, from a bi-county hospital authority to a private nonprofit board – may help the facility leverage greater financial resources from the state government and the business community. However, these changes, albeit dramatic, will likely not solve the underlying inequities between the patient mix currently served by Grady Memorial Hospital, and those served by the Northside Hospital system.

There are few other examples in the state of a tax-exempt nonprofit hospital operating outside its founding county, including Phoebe Putney Memorial Hospital in Albany County, who purchased Phoebe Worth Memorial Hospital in Worth County (though capital expenditures spent at the facility were relatively low). Other hospitals – such as Effingham Hospital in Effingham County – simply have an affiliation with a larger nonprofit facility, St. Joseph's/Candler in nearby Chatham County.

Financial Statistics for Grady Memorial Hospital and Northside Hospital^{xxii}

Fiscal Year 2005

	<u>Grady</u>	<u>Northside</u>
Gross Revenue (billings)	858,757,593	1,378,094,743
Net Reimbursement (payment)	512,129,648	541,787,097
Expenses	554,992,528	512,787,097
Net Income	- 42,862,880	28,218,271
Adjusted Gross Revenue	633,663,738	1,121,749,283
Gross Indigent/Charity Care	247,676,477	39,960,022
Payments to Offset Care Provided	178,114,929	3,525,758
Net Indigent/Charity Care	69,561,548	36,434,264
Net I/C as Percent of Gross Revenue	8.1 percent	2.6 percent
Net I/C Care as Percent of AGR	11.0	3.2

Northside Hospital provides approximately one-third less indigent care and charity care than Grady Memorial Hospital. Predictably, the net income of Northside Hospital eclipses that of Grady Memorial by \$71,081,151.^{xxiii}

COMMUNITY BENEFITS

Affordability

According to a report recently released by Harvard University, approximately one-half of all Americans who file for bankruptcy do so because of medical bills. Three-quarters of those patients had health insurance at the time of illness or injury.^{xxiv} Of the 100 counties in the nation with the highest rates of bankruptcy, 45 are in Georgia.^{xxv}

On average, Georgians spend \$4,891 a year on health care at hospitals and doctor's offices.^{xxvi}

Hospital Pricing

Regulations and requirements associated with the ICTF and the tax-exempt status – not to mention their own founding missions – compel tax-exempt nonprofit hospitals to provide free and reduced charge health services to eligible patients. Instead, hospital pricing practices targeting the medically uninsured discourage eligible patients from accessing reduced-cost health services.

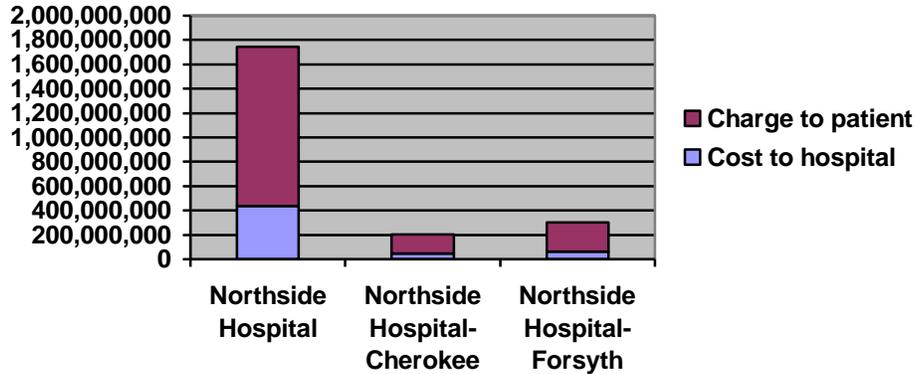
While all patients are charged the same for services, only self-pay patients are actually expected to pay that amount. In fact, hospitals charge the uninsured as much as ten times more than HMOs, insurance companies and government programs such as Medicare.^{xxvii} Because nobody negotiates a discount for the uninsured, these patients get stuck with unreasonable mark-ups, artificially inflated prices and enormous bills.

Government health insurance programs (Medicaid, Medicare and PeachCare) reimburse hospitals at rates determined by CMS, while private health insurance companies negotiate lower prices that often vary between markets. In a large city like Atlanta, where competition for most procedures is high, insurance companies typically have more leverage to negotiate choice contracts and cheaper reimbursement rates for their enrollees.

As with many hospitals, mark-ups at Northside Hospital and its affiliates are excessive, ranging from increases of 300 times over cost, to more than 100,000 times over cost.^{xxviii}

- At Northside Hospital, anesthesiology prices were inflated by 3,060 times over cost in 2005, from a total approximate cost of \$463,061, to \$14,167,361 in patient charges. At Northside Hospital-Cherokee, anesthesiology prices were inflated by 100,215 times over cost, from a total approximate cost of \$3,134, to \$3,140,731 in patient charges. Similar mark-ups occurred at Northside Hospital-Forsyth, which inflated anesthesiology prices by approximately 5,206 percent.
- Prices for prescription drugs, one of the most commonly marked-up items, were inflated by about 500 percent at Northside Hospital, from a total approximate cost of \$43,586,819, to \$217,877,107 in patient charges. Similar increases occurred at the system's Forsyth and Cherokee county locations.
- Radiology and other diagnostic procedures were inflated by 431 percent at Northside Hospital, from a total approximate cost of \$47,580,756, to \$205,270,583 in patient

charges. An increase of 597 percent in charges over cost occurred at Northside Hospital-Forsyth, and an increase of 455 percent occurred at Northside Hospital-Cherokee.^{xxix}



Mark-ups, expressed as a percentage:

- Northside Hospital – 297 percent charged over cost
- Northside Hospital-Cherokee – 339 percent charged over cost
- Northside Hospital-Forsyth – 390 percent charged over cost

Approximately one in 10 patients treated at Northside Hospital in 2005 was a self-pay patient who paid the “sticker price” of charges for their care. Twenty-two percent of patients were covered through commercial insurance, and 49 percent were part of a managed care group. Nine percent were covered by Medicaid and 10 percent were covered by Medicare. From 2005 to 2006, the percentage of patients covered by Medicaid dropped to five percent, and those with commercial insurance jumped slightly to 25 percent.^{xxx}

In 2005 and 2006, managed care providers accounted for 66 percent and 69 percent, respectively, of net patient service revenues. One unidentified provider accounted for nine percent of net patient services in 2005, and 10 percent in 2006.^{xxxii}

In 2005 and 2006, Medicare and Medicaid reimbursements accounted for 26 percent and 29 percent, respectively, of net patient service revenues.^{xxxiii}

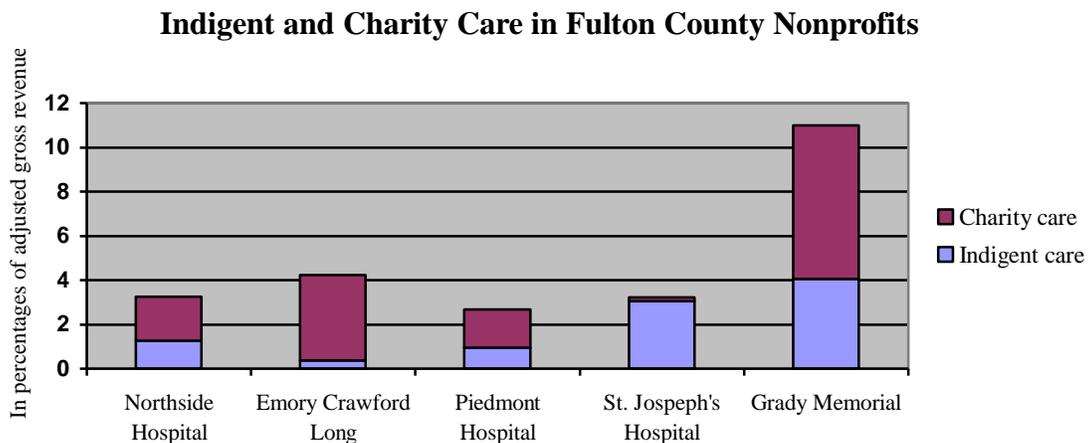
Charity care is not reported by revenues or accounts receivable, and is not considered in these calculations. Charity care amounts are not to be pursued by collections.

Tax-exempt nonprofit hospitals use a variety of terms to describe financial losses on services provided to the community. Though these descriptions aren’t always uniform, they are generally defined as:

- **Charity care:** Health care services delivered to a patient with no expectation of payments for those services.
- **Indigent care:** Health care services for self-pay patients who are unable to pay any portion of their bill.
- **Bad debt:** Services that a patient is unwilling to pay for, and should never be included in community benefit.
- **Uncompensated care:** Health care services that are not paid for, regardless of the reason, and which may include charity care, bad debts and discounts for Medicaid and Medicare.

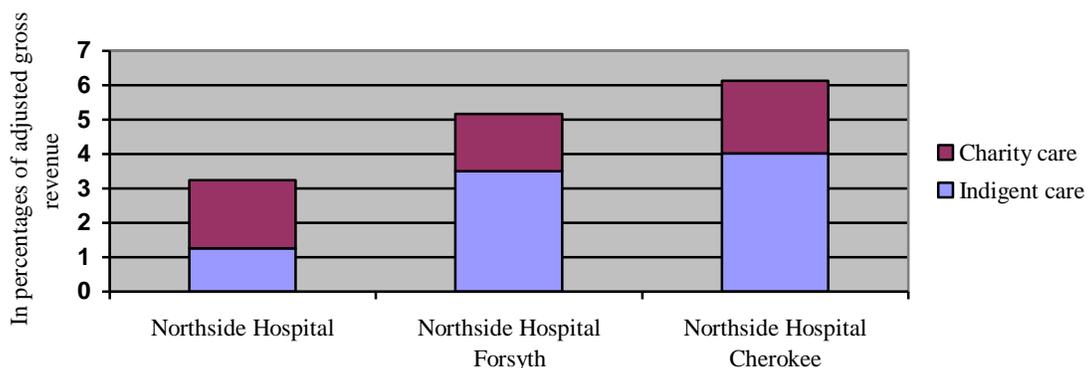
More than half of the state’s tax-exempt nonprofit hospitals did not provide at least five percent of their annual adjusted gross revenue as indigent care in 2005, including: Northside Hospital, Henry Medical Center, Children’s Healthcare Scottish Rite, Archbold Medical Center, Children’s Healthcare Egleston, Emory Crawford Long Hospital, Piedmont Healthcare, WellStar Windy Hill, WellStar Kennestone, Southeast Georgia Regional Medical Center, St. Joseph’s Atlanta, St. Joseph’s/Candler Hospital (Savannah) and Rockdale Medical Center, among many others.^{xxxiii}

Of those that do go far above and beyond the five percent minimum, many are smaller facilities located in rural areas, such as the 77-bed Walton Regional Medical Center (Monroe), the 95-bed Southwest Georgia Regional Medical Center (Cuthbert), the 35-bed Brooks County Hospital (Quitman), and the 65-bed Crisp Regional Health Services (Cordele).



Of the 29 nonprofit hospitals that serve the 13-county metro Atlanta area, only 13 provided at least the bare minimum of indigent care in 2005. In Fulton County, only two of the county’s nine tax-exempt nonprofit hospitals provided at least five percent of total care as indigent care in 2005 – Grady Memorial Hospital (11 percent) and Children’s Healthcare at Hughes Spaulding (18.4 percent). Coweta, Henry, Fayette and Rockdale counties all are without a nonprofit facility that provided at least at least 5 percent of their annual adjusted gross revenue to indigent patients in 2005.

Indigent and Charity Care at Northside Hospitals



The terms “charity care” and “indigent care” were used interchangeably on recent IRS Form 990 filings made by Northside Hospital. Because of this confusing method of accounting, it is difficult to see just how much charity care the hospital believes it offers.

For example, in its Fiscal Year 2005 IRS form 990 filings’ “Community Benefits Report,” Northside Hospital reported approximately \$37.8 million in indigent and charity care^{xxxiv}, though its audited filing reported \$53 million in charity care alone.^{xxxv}

Beginning in 2009, the newly-redesigned IRS Form 990 will require filers to differentiate in more detail and with more disclosure between bad debt and charity care. Groups such as the Healthcare Financial Management Association are encouraging hospitals and other health care facilities to implement more stringent policies regarding charity care before the IRS forms change.

Other stated community benefits

According to its IRS Forms 990, Northside Hospital’s stated benefits to the community in 2005 included:

- Hospital tours for approximately 7,900 expectant mothers
- Nearly 68,000 copies of a free newsletter titled “Baby’s First Year”
- Its Web site, www.northside.com
- The 2005 Northside Hospital Charity Golf Classic
- Baby alumni party at Zoo Atlanta for more than 5,000 children and their families
- The Northside Hospital Auxiliary puppet program
- Employee volunteerism

It is unclear what total value Northside Hospital claimed for these – and many other – stated community benefits, which strongly resemble marketing activities.

CONCLUSION

Elected officials, community leaders, employee representatives, patients and other stakeholders must work to identify and confront the underlying problems preventing all Georgia citizens from accessing medical services and quality health care.

Models for Legislative Change

Effective Jan. 1, 2007, the Illinois Fair Patient Billing Act established the following standards to which Illinois' tax-exempt nonprofit hospitals are held:

- Hospitals are required to conspicuously post signage in the admission and registration areas of the hospital notifying patients of the availability of financial assistance.
- Hospitals are required to make available financial assistance information in the form of a brochure or application in the hospital admission or registration area.
- Hospital bills must include:
 - A description of hospital services rendered and amounts owed by the patient;
 - Hospital contact information for billing inquiries;
 - Information on applying for financial assistance; and
 - A notice that a patient may request an itemized bill.
- Hospitals will not pursue legal action for non-payment of a hospital bill against uninsured patients who have demonstrated that they have insufficient income and assets to meet their financial obligations.
- Hospitals and their agents may only pursue collection actions after the uninsured patient has been given the opportunity to assess the accuracy of the bill, apply for assistance under the hospital's financial assistance policy, and avail themselves of a reasonable payment plan.

Policy Recommendations:

Level II trauma center: Northside Hospital should utilize surplus funds to open a Level II trauma center. Currently, there is only one other Level II trauma center at a nonprofit hospital in the 13-county metro Atlanta area. A Level II trauma center offers emergency care to trauma patients similar to that of a Level I trauma center, though it is not required to have the same research and surgical residency programs.

Affordability: Patient care should be affordable to those who do not have private insurance or government insurance, such as PeachCare, Medicaid or Medicare. Charges to patients should be fair and clearly explained at the time of admission to the hospital, as should financial assistance options. Information about financial assistance should be posted at all points of entry to the hospital, including the emergency department, intake office and billing areas, and should be in

languages used by the patient population. Also, state lawmakers should act to extend tax-exempt status to free health care clinics.

Transparency: State lawmakers should create and enact definitions for the terms “indigent care,” “charity care” and “bad debt” that are based on cost instead of marked-up charges and inflated hospital pricing schedules. Any state regulatory body, including county taxing authorities and DCH, could utilize these definitions in determining and assessing the financial performance of Georgia’s tax-exempt nonprofit health care facilities.

- Charity care and indigent care should be considered two different things. Indigent care is defined as medical services and supplies provided to patients with income at or below 125 percent of the Federal Poverty Level (FPL). Such patients receive care at no cost to them.

Charity care should be defined as medical services and supplies provided to patients with income of 126 percent to 200 percent of FPL. Such patients are responsible for a percentage of hospital charges, as established by a pre-set sliding scale. Charity care will not include community benefits (such as free cancer screenings or health education) or bad debt.

- The determination of reported charity care, and indigent care services and supplies, should be based on the facility’s average negotiated discounted rates with both private and public insurers, not the “sticker price,” or marked-up charges or “chargemaster” rates of the facility.
- Patients must be informed of their eligibility for charity or indigent care via notices that are displayed in the emergency department and billing areas of the hospital. The hospital must also provide patients with copies of the policy with their bills. If requested by the patient, the hospital must provide a patient with a billing specialist to explain the program. All information regarding charity and indigent care will be available in languages appropriate for the entire patient population.
- Charity care and indigent care are both based on income and family size only, and will not include property, possessions or automobiles.
- Maximum charges to any qualifying individual for indigent or charity care cannot exceed 25 percent of the patient’s gross income for that year.
- Patients whose annual income exceeds 200 percent of FPL, and whose hospital charges exceed 25 percent of their annual income, will be eligible for charity care under a catastrophic provision.
- Charity care will not include elective plastic surgery, private room differences and other premium charges.

Oversight: The state Department of Revenue should conduct annual audits and certifications of tax-exempt nonprofit entities in Georgia that meet a financial threshold based on the amount of funds the entity holds in reserve and expenditures related to executive compensation.

Assessments to evaluate real value of tax-exempt status: County taxing authorities should perform regular assessments of the property holdings of tax-exempt nonprofit health care facilities to ensure the community is receiving a comparable benefit for its loss of property tax revenue.

APPENDIX

**Executive Compensation
Northside Hospital**

Fiscal Year 2000

Name and position	Total salary and benefits	Salary	Deferred compensation	Expenses and allowances
S. Kirschner, CEO	\$957,710	946,960	10,750	0
R. Quattrocchi, Sr. VP and CFO	340,604	329,854	10,750	0
D. Parker, Pres. and CEO, Cherokee	212,036	201,652	10,384	0
S. Greene, CFO, Cherokee	88,493	84,113	4,380	0
T. Walker, VP	168,965	158,581	10,384	0
J. Dubow, VP	191,109	180,374	10,735	0
R. Jenkins, VP	174,692	164,308	10,384	0
D. Hill, VP	189,825	178,967	10,858	0
J. Mullins, VP	182,251	171,540	10,711	0
O. Douglas, VP	189,608	179,224	10,384	0
N. Belknap, Secretary	76,158	69,273	6,885	0
Total compensation of key officers and employees	\$2,771,451	2,664,846	106,605	0

Fiscal Year 2001

Name and position	Total salary and benefits	Salary	Deferred compensation	Expenses and allowances
S. Kirschner, CEO	\$912,746	902,246	10,500	0
R. Quattrocchi, Sr. VP and CFO	358,924	348,424	10,500	0
D. Parker, Pres. and CEO, Cherokee	212,717	202,717	10,000	0
S. Greene, CFO, Cherokee	95,157	90,777	4,380	0
T. Walker, VP	184,008	174,008	10,000	0
J. Dubow, VP	192,536	181,928	10,608	0
R. Jenkins, VP	282,025	269,217	12,808	0
D. Hill, VP	181,357	170,857	10,500	0
J. Mullins, VP	171,962	161,462	10,500	0
O. Douglas, VP	182,139	172,139	10,000	0
N. Belknap, Secretary	76,033	69,403	6,630	0
Total compensation of key officers and employees	\$2,849,604	2,743,178	106,426	0

Fiscal Year 2002

Name and position	Total salary and benefits	Salary	Deferred compensation	Expenses and allowances
S. Kirschner, CEO	\$2,084,984	1,965,680	119,304	0
R. Quattrocchi, Sr. VP and CFO	598,657	481,011	117,646	0
D. Parker, Pres. and CEO, Cherokee	295,982	215,226	80,756	0
S. Greene, CFO, Cherokee	98,843	94,451	4,392	0
S. Putnam, VP, Cherokee	71,697	69,235	2,462	0
T. Walker, VP	187,699	168,249	19,450	0
J. Dubow, VP	214,336	191,179	23,157	0
D. Hill, VP	204,499	195,636	8,863	0
J. Mullins, VP	184,067	164,456	19,611	0
O. Douglas, VP	188,037	183,037	5,000	0
N. Belknap, Secretary	78,156	71,399	6,757	0
Total compensation of key officers and employees	\$4,206,957	3,799,559	407,398	0

Fiscal Year 2003

Name and position	Total salary and benefits	Salary	Deferred compensation	Expenses and allowances
S. Kirschner, CEO*	\$1,018,053	980,553	27,853	9,647
R. Quattrocchi, Sr. VP and CFO	683,367	651,294	29,563	2,510
D. Parker, Pres. and CEO, Cherokee	227,372	201,795	23,546	2,031
S. Greene, CFO, Cherokee	100,558	94,721	5,786	51
M. Grosvenor, CFO, Cherokee	2,692	2,692	0	0
S. Putnam, VP, Cherokee	263,366	252,921	10,000	445
T. Wakim, VP	173,586	156,361	17,113	112
J. Dubow, VP	202,197	171,733	30,133	331
D. Hill, VP	214,518	196,299	17,604	615
J. Mullins, VP	186,396	156,595	29,521	280
O. Douglas, VP	194,159	191,356	2,622	181
N. Belknap, Secretary	74,484	66,876	7,551	57
Total compensation of key officers and employees	\$3,340,748	3,123,196	201,292	16,260

*This amount varies from the Northside Hospital-Cherokee IRS Form 990 and the Northside Hospital Form 990 by \$60.00

Fiscal Year 2004

Name and position	Total salary and benefits	Salary	Deferred compensation	Expenses and allowances
S. Kirschner, CEO	\$1,388,392	1,350,642	28,165	9,585
R. Quattrocchi, Sr. Pres. and COO	732,521	693,634	33,377	5,510
D. Mitcham, CFO*	0	0	0	0
D. Mitcham, Controller	282,997	141,887	18,196	122,914
D. Parker, Pres. and CEO, Cherokee	204,516	178,924	23,666	1,926
M. Grosvenor, CFO, Cherokee	28,078	28,067	0	11
S. Putnam, VP, Cherokee	270,801	257,489	11,426	1,886
T. Wakim, VP	188,924	170,597	18,215	112
J. Dubow, VP	208,691	176,692	31,668	331
D. Hill, VP	219,642	202,140	17,251	251
J. Mullins, VP	185,419	153,948	30,344	1,127
O. Douglas, VP	199,256	196,051	3,024	181
L. Jackson, VP	168,916	168,726	0	190
N. Belknap, Secretary	75,816	68,208	7,551	57
Total compensation of key officers and employees	\$4,153,969	3,787,005	222,883	144,081

* Debbie Mitcham worked previously as a controller and financial director, but was promoted to chief financial officer September 15, 2003.

Fiscal Year 2005

Name and position	Total salary and benefits	Salary	Deferred compensation	Expenses and allowances
S. Kirschner, CEO	\$817,208	778,545	22,283	16,380
R. Quattrocchi, Sr. COO	1,528,061*	482,147	34,303	17,409
D. Mitcham, CFO	270,105	209,842	0	60,263
D. Parker, Pres. and CEO, Cherokee	218,420	195,759	13,603	9,058
B. Hayes, CEO, Cherokee	116,709	110,679	5,923	107
M. Grosvenor, CFO, Cherokee	116,269	94,804	21,408	57
S. Putnam, VP, Cherokee	296,538	273,472	13,782	9,284
T. Wakim, VP	232,008	210,728	21,117	163
J. Dubow, VP	234,895	197,170	37,312	413
D. Hill, VP	245,940	217,517	27,609	814
J. Mullins, VP	199,656	164,421	34,910	325
O. Douglas, VP	326,550	321,369	4,984	197
L. Jackson, VP	183,943	183,721	0	222
B. Carr, VP	201,216	177,685	23,387	144
N. Belknap, Secretary	76,811	69,942	6,812	57
Total compensation of key officers and employees	\$5,064,329*	3,687,801	267,433	114,893

*In addition to his usual salary, Mr. Quattrocchi participated in what was called a “Supplemental Executive Retirement Plan,” which paid out a total \$994,202 in the 2005 Fiscal Year. According to the hospital’s IRS form 990 for that year, the periodic payments “are intended” to be used to purchase annuities or other assets that will supplement Mr. Quattrocchi’s tax qualified retirement benefits. There is no indication anyone else participated in that same plan. This is also the year Mr. Quattrocchi became CEO, as former CEO Sidney Kirschner left that post. Mr. Quattrocchi received \$722,286 in this same plan the following fiscal year.

ⁱ “Nonprofit hospitals, once for the poor, strike it rich,” *Wall Street Journal*, April 4, 2008.

ⁱⁱ Ibid.

ⁱⁱⁱ As provided by the Web site <http://www.hospitalvictims.org>, who pulls financial information from yearly forms submitted to the Centers for Medicaid and Medicare Services.

^{iv} Ibid.

^v 2005 Annual Hospital Financial Survey, Georgia Department of Community Health.

^{vi} According to the GHA, this law has not changed since 1969.

^{vii} Nonprofit Hospital Systems: Survey on Executive Compensation Policies and Practices, United States Government. Accountability Office, June 2006, <http://www.gao.gov/new.items/d06907r.pdf>.

^{viii} Ibid.

^{ix} Information from the Georgia Department of Community Health.

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- ^x 2005 Annual Hospital Financial Survey, Georgia Department of Community Health.
- ^{xi} 2005 Annual Hospital Financial Survey, Georgia Department of Community Health.
- ^{xii} Ibid.
- ^{xiii} Ibid.
- ^{xiv} Audited financials as prepared by Deloitte and Tucker for Northside Hospital for Fiscal Years 2005 and 2006.
- ^{xv} IRS Form 990 for Fiscal Year 2005, as prepared by Northside Hospital.
- ^{xvi} IRS Form 990 for Fiscal Year 2002, as prepared by Northside Hospital-Cherokee.
- ^{xvii} IRS Form 990 for Fiscal Years 2004 and 2005, as prepared by Northside Hospital.
- ^{xviii} IRS Form 990 for Fiscal Years 2000 through 2005, as prepared by Northside Hospital.
- ^{xix} IRS Form 990 for Fiscal Year 2005, as prepared by Northside Hospital.
- ^{xx} Audited financials as prepared by Deloitte and Tucker for Northside Hospital for Fiscal Years 2005 and 2006.
- ^{xxi} Georgia Department of Community Health, CON Project Listing/CON Tracking Report.
- ^{xxii} 2005 Annual Hospital Financial Survey, Georgia Department of Community Health.
- ^{xxiii} Ibid.
- ^{xxiv} "Medical Bills Trigger Half of All Bankruptcies," MSNBC, Feb 02, 2005.
- ^{xxv} "Borrower Beware," *Atlanta Journal-Constitution*, Feb. 02, 2005.
- ^{xxvi} <http://gahospitalpricecheck.org>.
- ^{xxvii} "From the President: Hospital Overcharging." *Journal of American Physicians and Surgeons*. Volume 11. Number 1. Spring 2006.
- ^{xxviii} As provided by the Web site <http://www.hospitalvictims.org>, who pulls financial information from yearly forms submitted to the Centers for Medicaid and Medicare Services.
- ^{xxix} Ibid.
- ^{xxx} Audited financials as prepared by Deloitte and Tucker for Northside Hospital for Fiscal Years 2005 and 2006.
- ^{xxxi} Ibid.
- ^{xxxii} Ibid.
- ^{xxxiii} The numbers are publicly available either through the Georgia Department of Community Health or the Internal Revenue Service, as reported by each facility on required forms.
- ^{xxxiv} IRS Form 990, as prepared by Northside Hospital.
- ^{xxxv} Audited financials as prepared by Deloitte and Tucker for Northside Hospital for Fiscal Years 2005 and 2006.